March 31, 2009

The Honorable Michael E. Fryzel
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman
National Credit Union Administration

The Honorable Gigi Hyland
Board Member
National Credit Union Administration

Re: Request for Comments on Advance Notice of Proposed Rulemaking
National Credit Union Administration
12 CFR Part 704 on Corporate Credit Unions

Dear Chairman Fryzel, Vice Chairman Hood and Board Member Hyland:

Thank you for this opportunity to present the Corporate Credit Union Stabilization Partnership's response to the NCUA's advance notice of proposed rulemaking (ANPR) related to 12 CFR Part 704 on corporate credit unions. The Corporate Credit Union Stabilization Partnership (CCUSP) is a workgroup of credit unions formed for the purpose of addressing the financial challenges that face corporate credit unions and U.S. Central. The CCUSP believes that an open, transparent, industry-wide approach to addressing today's challenges is the best way to help corporates and ensure the success of all credit unions. The resulting corporate system will be stronger and more financially stable than the current model, and will be well positioned to help credit unions meet the needs of their natural-person members.

The CCUSP's work has focused on (1) minimizing the financial impact of the corporate situation, (2) positioning the corporates to meet the needs of credit unions going forward, and (3) putting the right framework in place to avoid similar situations in the future. The CCUSP has developed a number of ideas for meeting today's financial challenges, and presented those ideas to a large number of credit unions, corporates and the NCUA. We believe that the credit-union owners of the corporates must implement fundamental changes in the structure, governance and operation of the corporates. The changes that the CCUSP proposes will help to ensure that the corporates act in the best interest of credit unions and provide the types of operational, investment and liquidity services that credit unions need to serve their members.

This response to the ANPR has two major sections. Part 1 summarizes the CCUSP's suggestions for improving the financial stability of corporates and instituting changes to ensure they meet the needs of credit unions in the most effective manner going forward. This overview is an excerpt from the CCUSP's detailed report on addressing the corporate network's financial challenges. Part 2 of our response provides the CCUSP's feedback on the individual topics and questions included in the NCUA's ANPR. Also attached to this response is the CCUSP's detailed report of our recommendations for corporate credit unions.

Thank you for the opportunity to present this commentary for your consideration. We continue to have great faith in the safety and soundness of the overall credit union system and remain confident that our philosophies of mutual cooperation and people helping people will allow us to triumph over today's challenges. The unique strengths of our system provide the value that our 93 million members need to manage their finances through today's challenging economic environment. We know that working together, we are stronger than standing alone, and we remain committed to supporting our members for generations to come.

Sincerely,

Dennis Pierce
Chief Executive Officer
CommunityAmerica Credit Union
Chairperson
Corporate Credit Union Stabilization Partnership

Members of the CCUSP	***State***
Bellco Credit Union	CO
Bethpage Federal Credit Union	NY
CommunityAmerica Credit Union	MO
ESL Federal Credit Union	NY
NuUnion Credit Union	MI
Pennsylvania State Employees Credit Union	PA
San Antonio Federal Credit Union	TX
Star One Credit Union	CA
State Employees Credit Union of Maryland	MD
State Employees Federal Credit Union	NY
Texas Dow Employees Credit Union	TX
Wright-Patt Credit Union	OH

PART 1 - CCUSP SUGGESTIONS FOR THE CORPORATE NETWORK

Overview

Credit unions must work together to solve the financial challenges faced by the corporate credit union network (including the corporates and U.S. Central, collectively the CCN). The Corporate Credit Union Stabilization Partnership (CCUSP) is a workgroup of credit unions formed to address this situation by providing thought leadership and mobilizing the credit union system around strategies to resolve the CCN's problems.

This group has a future vision for the CCN that includes three types of entities:

1) A corporate charter to provide short-term investment and liquidity products as well as payment and settlement services.
2) A broker/dealer to provide longer-term investments and investment advisory services.
3) A CUSO to facilitate long-term credit union liquidity through participations and securitizations.

The group supports massive consolidation in the corporate system in order to generate up to $250 million in annual expense savings. These savings are independent of the ultimate level of realized losses on CCN investments, so that this transition makes sense regardless of the severity of the current crisis. The group believes consolidation will need to be "driven" by the NCUA, while delicately handling related public relations issues in order to minimize undesirable consequences. The group's recommendations provide a transition framework to manage the corporate system through the workout of its current financial crisis to the new vision. The transition framework proposed can be utilized regardless of whether or not the corporates' losses can be managed within the credit union system or are so large that external funding is required.

Objectives and Approach

The CCUSP commissioned this project to help credit unions manage through the current financial situation with the CCN while (1) minimizing the overall economic impact of the situation, (2) positioning the CCN to meet the needs of credit unions going forward, and (3) putting the right framework in place to avoid similar situations in the future. The approach to this project considered the CCUSP's desire for an open, industry-wide solution, while gaining input from credit unions, performing analyses of the current situation, developing strategies to work through the CCN's financial challenges, and creating mechanisms to meet the needs of credit unions.

Vision of the Future CCN

Credit unions believe that the current CCN structure of many corporates plus a wholesale corporate no longer makes sense. These credit unions favor a CCN without a wholesale corporate tier and composed of no more than a handful of corporate credit unions, and probably only one. They believe that such a structure would accelerate the natural consolidation that already is taking place and result in a more efficient CCN that would not assume inappropriate risk as the result of competition among corporates. Further, credit unions favor a structure that includes several entities that appropriately segregate the products and risks now present in each corporate entity:

- *Liquidity corporate* – This corporate credit union could provide investment and lending products with terms of 90 days or less, along with all of the settlement and correspondent services that the corporates offer today.
- *Broker/dealer* – A broker/dealer entity would be in the best position to offer the longer-term investments, brokered CDs, structured products and investment advisory services that today are offered through the CCN.
- *Liquidity vehicle* – This entity would help credit unions achieve long-term funding by securitizing various types of credit union loans and participating loans among credit unions. It also could help facilitate long-term, on-balance-sheet borrowing by credit unions.

The CCUSP credit unions realize that term product offerings and a corporate charter to support them also might be necessary during a transition period as the CCN's existing assets and liabilities mature, but they do not believe that a corporate charter is the best vehicle for providing term investments to credit unions. The CCUSP generally favors internal support of the transition to the new CCN structure. Only in the most extreme circumstances would the CCUSP advocate using U.S. government assistance, such as TARP or similar funding, and even then only after considering the related political, regulatory and other ramifications.

We analyzed the economic feasibility of a liquidity corporate to determine if such a structure could generate sufficient income to cover its operating expenses and capital structure. Based on estimates for expense models including one and four corporates, a liquidity corporate does appear to be viable. The base case market-share scenario shows that net income might be as high as $55 million under a model including four corporates to $164 million in a model including one corporate. Even under the four-corporate model, the liquidity corporate would continue to be profitable down to about 50 percent of today's CCN market share.

Workout Strategies for the CCN's Current Financial Position

As of November 2008, the CCN had unrealized losses totaling $17.8 billion against total net capital of $6.7 billion, for a combined net equity position of about *negative* $11.1 billion. A key objective in working through today's challenges is to prevent these unrealized losses from being realized as the result of sales of investments at prices well below their original book values.

The keys to minimizing the cost of the financial crisis to credit unions are to ensure sufficient liquidity in the CCN to avoid the need to sell the securities at a loss while preserving or creating capital to offset any losses. The CCUSP credit unions advocate several techniques to minimize the overall NCUSIF premium:

1. *Pay down all credit union loans from corporates* – This will help to maximize liquidity and avoid securities sales.
2. *Have credit unions maintain liquid balances in the CCN* – Having credit unions maintain their balances in the CCN is the most readily available and least expensive method of

minimizing the cost of the financial crisis. Accomplishing this is predicated on maintaining the support of credit unions by demonstrating that the CCN structure is evolving in the manner they believe is necessary to best support their long-term needs.
3. *Eliminate dividends on CCN PIC and MCS* – The complete use of earnings to absorb losses is a technique to minimize the possibility of write-offs by credit unions.
4. *Provide cross-guarantees of all CCN exposures* – Using all CCN capital through the effective mobilization of that capital across the CCN would decrease the magnitude and likelihood of losses at any single credit union.
5. *Create efficiencies to increase earnings in the CCN* – As discussed earlier, the CCUSP believes that there are significant operating efficiencies available in the CCN. The earnings from these savings could provide a significant capital cushion against future losses.
6. *Have corporates issue capital notes to credit unions* – The issuance of capital notes is one idea for credit unions to provide a stable source of funding to the CCN while insulating the NCUSIF against losses and thereby reducing the overall premium. Another idea would be long-term share accounts. However, each of these options requires significant analysis, including access to the PIMCO modeling results and close collaboration with the NCUA. A key to making any type of long-term funding idea salable to credit unions would be in offering the credit unions potential returns that are commensurate with the risks of the capital instruments.

In any case, it is important to be able to describe each of these techniques, and any others proposed by the NCUA, in the context of their premium savings. What is the impact on the NCUSIF premium of implementing each specific action?

Transitioning to the Vision of the Future CCN

The CCUSP has several recommendations to support a smooth transition to the new CCN structure:

1. *The NCUA must drive change within CCN* – The corporates in the CCN have not demonstrated that they can work together in a cohesive manner to lead the way out of this crisis. Credit unions could do this but the CCUSP believes that the central leadership of the NCUA, through the thoughtful use of its various authorities, is the most effective and timely manner of addressing today’s issues.
2. *Any action should be evaluated against the risk of exacerbating the situation and implemented in a manner designed to minimize undesirable consequences* – Although the NCUA has the ability and right to enact regulatory action without warning, we recommend that every effort be made to engage credit union participants prior to any action.
3. *Transitional issues must balance the negative consequences of potential NCUA actions versus short- and long-term benefits and cost savings* – We all must keep long-term objectives in sight as we transition to the vision of the future CCN.
4. *Any transition plan must be "salable" to industry leaders in order to maintain credit union participation and avoid splintering the industry* – The transition must involve credit unions, as well as other leading industry groups and experts, to ensure credit unions remain committed to the overall credit union movement.

We believe that the ultimate management of the liquidity corporate, broker/dealer and liquidity facility should fall under a corporate management CUSO holding company structure (corporate management company). Such a structure would have the potential to oversee multiple corporate charters through a transition period during which the assets and liabilities of the existing corporates are in a run-off situation, while still achieving significant operating expense efficiencies.

The corporate management company should coordinate the consolidation projects to be led by a transition team and largely staffed by existing CCN personnel. The transition team, consisting of experts from credit unions and other industry participants, should include project management, investment, operations, finance, communications, and administrative functions falling under the supervision of the corporate management company. We believe that the transition team can implement many quick-hit changes to achieve expense savings in 30 to 90 days and complete the bulk of the transition in 12 to 18 months, with certain other follow-up activities to be completed after that time. The corporate management company and transition team approach could facilitate the transition regardless of the ultimate level of losses on CCN investments.

An important part of the transition will be to solidify the view of the future CCN. We recommend that the corporate management company lead a three- to six-month analysis to solicit input from all segments of the credit union system and finalize the future vision.

Finally, we recommend that credit unions serve on a new U.S. Central board and ALCO, which together will oversee the transition.

Summary

The transition to the new vision of the CCN will be a difficult process. Implementing the new credit union vision will change most of what we recognize as the CCN today. However, working through the CCN's financial crisis and moving to a more efficient CCN will help ensure that credit unions can continue to fulfill their mission of providing financial services to their members well into the future.

PART 2 - RESPONSES TO SPECIFIC QUESTIONS IN THE ANPR

The following sections of this document provide the CCUSP's responses to the specific questions that the NCUA asks in the ANPR.

1) The Role of Corporates in the Credit Union System.

a) *Payment system.*

i) Should payment system services be isolated from other services to separate the risks? If so, what is the best structure for isolating these services from other business risks?
CCUSP Response – A liquidity corporate, focusing on short-term investments and lending, should provide payment and other correspondent services to credit unions. Implementing this type of separation will segregate payment, settlement and correspondent services from the risks present in long-term asset-liability operations.

ii) Should a charter be offered that is limited to operating a payment system, with no authority to engage in other services, such as term or structured investments?
CCUSP Response – The CCUSP believes that a separation of the short-term and long-term functions of today's corporates is appropriate. However, it advocates including all of the payment, settlement and correspondent services together with the short-term investing and lending functions in a liquidity corporate.

iii) Should a separate charter be available for corporate credit unions that want to engage in providing investment services?
CCUSP Response – Again, the CCUSP believes that the short-term investing, lending and correspondent functions should be provided by a liquidity corporate (or corporates) while the long-term investing functions should be provided by a broker/dealer selling investments and brokered CDs.

iv) Alternatively, should NCUA establish distinct capital requirements for payment systems risk and the risks of other corporate services?
CCUSP Response – Corporates should not be subject to separate capital requirements for each category of risk. A corporate's internal risk management processes periodically should analyze the various risks to ensure that the corporate has adequate capital, insurance and other controls to support its investment, operational and other requirements.

v) Should NCUA also require that a legal and operational firewall be established between payment system services and other services?
CCUSP Response – The NCUA regulations should not require these types of firewalls between different services because such a requirement could present operational obstacles and increase the costs of services to credit unions.

vi) Is there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only?
CCUSP Response – Our analysis shows that a liquidity corporate, offering only short-term investing and borrowing services as well as payment, settlement and other correspondent services, appears to be a viable solution. However, this type of structure is viable only if we can achieve significant operating efficiencies by substantially consolidating the existing corporates.

b) *Liquidity and liquidity management.*

i) Should liquidity be considered a core service of the corporate system, and if so, what steps should be taken, and by whom, to preserve and strengthen corporates' ability to offer that service? For example, should NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?

CCUSP Response – Liquidity is, always has been, and should remain a core service of the corporate system. The CCUSP would support limiting corporates to providing short-term investing and liquidity products, along with settlement, payment and other correspondent services, after a transition period to allow existing long-term products to run off of corporate balance sheets. The CCUSP believes that a broker/dealer is a better vehicle for offering the long-term products. This is the case because natural person credit unions, rather than corporates, have the capital structures to adequately bear the long-term risks.

ii) What specific types of products and services should corporates be authorized to provide?

CCUSP Response – A liquidity corporate should be able to offer short-term investment and liquidity products as well as all of the settlement, payment and correspondent services that the corporates offer today.

iii) What cash flow duration limits would be appropriate for corporate credit unions, particularly in an evolving interest rate market with previously unseen credit risk spreads?

CCUSP Response – The key to appropriately managing a liquidity corporate is ensuring that it invests in high-quality assets, with relatively short durations, and has only a moderate mismatch between assets and liabilities, considering credit and liquidity issues associated with any non-exchange-traded instruments. The financial risk policy concepts contained in the full CCUSP paper present broad guidelines for managing liquidity and other risks:

- Credit ratings requirements should require high quality issuers.
- Maturity limits should focus the corporate on remaining liquid.
- Concentration limits should force the corporate to avoid situations where an exposure to a single issuer or class of security could cause devastating losses.
- Accounting classifications should force the corporate to recognize losses against capital or income to avoid shielding losses in a held-to-maturity classification.
- Interest rate swaps should support the corporate's products but not arbitrage, while introducing only moderate credit and liquidity risk.
- Borrowing should be allowed for liquidity but not arbitrage or speculative purposes.
- Loan limits should force the corporate to avoid concentrations that could cause devastating losses but should allow large exposures to credit unions where the corporate has creditor priority.
- Liquidity measures should force the corporate to have considerable flexibility in meeting member needs while avoiding asset sales at prices below book values.
- Net economic value and other interest rate risk measures should force the corporate to maintain positions that cause its value to fluctuate in a fairly narrow range.

c) *Field of Membership Issues.*

i) Should the agency return to defined FOMs, for example, state or regional FOMs, to avoid significant, and unforeseen, risk taking?

CCUSP Response – The CCUSP would support state or regional FOMs under its future vision for the corporates. The CCUSP believes that irrational competition has occurred between corporates, partially as the result of the unlimited FOMs. Many people believe that the efforts corporates have made to attract members through their unlimited FOMs have caused them to assume risk that is not commensurate with the narrow spreads available in their competitive environment. Competition generally is a beneficial factor that causes companies to develop innovative approaches to meeting customer needs while still generating attractive levels of return. It is possible that the not-for-profit nature of the corporates, coupled with the desires of credit unions to realize higher returns while forcing the companies that they own to assume the related risks, have created non-market forces that influenced the corporates' behavior. Throw in the political maneuvering of many participants in this market and the result is a corporate system forced to assume a high level of risk, retain minimal capital, and pay above market rates on investments, while at the same time using investment earnings to subsidize loss-leader pricing on correspondent services.

d) *Expanded Investment Authority.*

i) Does the need for expanded authorities continue to exist and if so, should NCUA modify the procedures and qualifications, such as higher capital standards, by which corporates currently qualify for expanded authorities?

ii) If so, what should the new standards be?

iii) Should NCUA reduce the expanded authorities available and if so, which ones?

iv) Alternatively, should any of the limits in existing expanded authorities be reduced or increased and if so, which ones?

v) Once granted, should NCUA require periodic requalification for expanded authorities? If so, what should be the timeframe?

CCUSP Response – The CCUSP advocates that corporates offer only short-term investment and liquidity products as well as all of the settlement, payment and correspondent services that the corporates offer today. Also, the CCUSP vision is for a one-tiered corporate system, consisting of no more than several corporates, preferably under central management and having shared operations. Such a corporate would meet and exceed all of the risk-management requirements in today's expanded authorities but would not necessarily need all of the investment authorities in the expanded authorities, particularly related to buying lower-rated long-term investments. We do recommend that the liquidity corporate use derivatives for hedging purposes and have large lending limits for credit union members (where the corporate would have creditor priority and the ability to ensure that the unencumbered asset economic value remains sufficient to provide protection for any loans). Thus, the CCUSP believes that the need for expanded authorities does continue to exist. However, given the relatively low risk posture of the liquidity corporate, we do not believe that the liquidity corporate should be subject to higher capital standards. Under the future vision, natural person credit unions, with their higher capital levels and skills in evaluating long-term positions, would be the entities that would assume a greater portion of the longer-term investment exposures.

e) *Structure; two-tiered system.*
   i) Does the two-tier corporate system in its current form meet the needs of credit unions?
      CCUSP Response – No, the two-tiered system no longer meets the needs of credit unions in the most effective manner. The CCUSP favors a one-tier corporate system, with no wholesale corporate and probably only one, but no more than four, corporates.
   ii) Is there a continuing need for a wholesale corporate credit union and if so, what should be its primary role?
      CCUSP Response – The CCUSP favors a one-tier corporate system without a wholesale corporate.
   iii) Should there be a differentiation in powers and authorities between retail and wholesale corporates? In considering these issues, commenters are specifically asked to consider whether the current configuration results in the inappropriate transfer of risk from the retail corporates to the wholesale corporate.
      CCUSP Response – Again, the CCUSP favors a one-tier system but does not feel that the designation of an institution as being retail or wholesale should necessarily impact its powers and authorities. The keys in determining powers and authorities are the risk management capabilities of the organizations. The appropriateness of risk transfer is dependent on the management of the risks and total capital protecting the interests of natural person credit unions (in viewing corporate risks). Generally, corporates that have not done their own investing have not adequately considered the risks of their investment in U.S. Central instruments.
   iv) Assuming the two-tiered system is retained, should the capital requirements and risk measurement criteria (e.g., NEV volatility), as well as the range of permissible investments, for the wholesale corporate credit union be different from those requirements that apply to a retail corporate credit union?
      CCUSP Response – Because the CCUSP favors a one-tier corporate system without a wholesale corporate, the need for separate capital requirements, risk measurement criteria and the range of permissible investments is not necessary.

2) Corporate Capital.

a) *Core capital.*
   i) Should the NCUA establish a new capital ratio that corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require?
   ii) What actions are necessary to enable corporates to attain a sufficient core capital ratio as described above, and what would be an appropriate time frame for corporates to attain sufficient capital?
   iii) What is the appropriate method to measure core capital given the significant fluctuation in corporate assets that occurs?
   iv) What is the correct degree of emphasis that ought to be placed on generating core capital through undivided earnings?

v) Should NCUA require that a corporate limit its services only to members maintaining contributed core capital with the corporate?
CCUSP Response – Because the CCUSP recommends reducing the risk posture of corporate credit unions, the need for capital also should be reduced. Given these parameters, the existing capital ratio requirement of 4 percent should be more than adequate.

b) *Membership capital.*

i) Should the NCUA continue to allow membership capital in its current configuration, or should the agency eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?
CCUSP Response – The conservatorships of U.S. Central and Wescorp actually have proven that MCS and PIC are equally capable of being used to offset losses that exceed RUDE, even though MCS have been maligned for many years as an inferior form of capital. The CCUSP recommends that the NCUA continue to allow the present form of MCS. Moreover, given the short-term exposures of the proposed liquidity corporate, the use of MCS as capital probably is even more appropriate.

ii) Should the NCUA tie adjusted balance requirements, as set out currently in §704.3(b)(8), only to assets, as well as whether to impose limits on the frequency of adjustments?
CCUSP Response – Today's corporate situation does not call for any changes in the structure or adjustment of MCS.

iii) Should the agency require that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning of current §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible? Should the NCUA require that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal?
CCUSP Response – Today's corporate situation does not call for any changes in the structure or adjustment of MCS.

iv) What are issues and revisions should NCUA consider for the definition and operation of membership capital?
CCUSP Response – Please see our above responses.

c) *Risk-based capital and contributed capital requirements.*

i) Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions?

ii) What regulatory and statutory changes, if any, would be required to effectuate such a change?

iii) Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining services from the corporate?

iv) Should contributed capital be calculated as a function of share balances maintained with the corporate, using asset size, or some other measure?
CCUSP Response – The nature of the assets of corporates and the risk weights used by other institutions generally results in very strong risk-based capital ratios for

corporates. For example, we estimate that the liquidity corporate, with tier one capital to total assets of 4 percent (i.e., 4 percent leverage ratio) would have a 19.9 percent tier one capital to risk weighted assets ratio. The NCUA should consider requiring the same risk-based capital requirements as the other agencies. However, requiring a 4 percent leverage ratio for the liquidity corporate would be too high, given the relatively limited credit, interest rate and liquidity risks we recommend for a liquidity corporate. A 2 percent leverage ratio requirement might be more appropriate, given the risk structure of a liquidity corporate.

3) **Permissible Investments.**

a) Should the corporate investment authorities be constrained or restricted?
b) Should NCUA limit corporate credit union investment authorities to those allowed for natural person credit unions so that a member's investment in the corporate does not expose it to investments it could not otherwise purchase?
c) Should NCUA prohibit certain categories of, or specific, investments, for example: collateralized debt obligations (CDOs), net interest margin securities (NIMs), and subprime and Alt-A asset-backed securities, or modify other existing permissibility or prohibitions for investments?

CCUSP Response – The CCUSP advocates that corporates offer only short-term investment and liquidity products as well as all of the settlement, payment and correspondent services that the corporates offer today. Thus, the need for investments covered in the expanded investment authorities should be limited. However, we do recommend the continued use of at least some of the instruments permitted by the expanded authorities, such as derivatives. We recommend that a corporate's risk policies and processes be adequate to manage the corporate's risk position, rather than simply limiting the types of permissible investments.

4) **Credit Risk Management.**

a) Should the NCUA curb the extent to which a corporate may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)?
b) Should NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?
c) Should the NCUA require additional stress modeling tools in the regulation to enhance credit risk management?
d) Should Part 704 be revised to lessen the reliance on NRSRO ratings?
e) What other changes may be prudent to help assure adequate management of credit risk? In this respect, commenters should consider whether Part 704 should be revised to provide specific concentration limits, including sector and obligor limits and if so, what specific limits would be appropriate for corporate credit unions?
f) Should corporates be required to obtain independent evaluations of credit risk in their investment portfolios and if so, what would be appropriate standards for these contractors?
g) Should corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?

CCUSP Response – Credit risk management techniques employed by corporates should include thorough credit analysis, the use of reasonable limits, and the use of outside firms to validate test sensitivities.

5) Asset Liability Management.

a) In a previous version of its corporate rule, NCUA required corporate credit unions to perform net interest income and stress testing. Because one of the problems leading to the current market dislocation was a widening of credit spreads, should the agency consider re-instating the previous requirement for net interest income modeling and stress testing?
b) Alternatively, should the agency require some form of mandatory modeling and testing of credit spread increases?
c) Should NCUA require corporates to use monitoring tools to identify these types of trends, and what tangible benefits, if any, would flow from these types of modeling requirements?
CCUSP Response – The CCUSP advocates requiring monitoring tools which would require stress testing of interest rate risk, spread widening and credit shocks.

6) Corporate Governance.

a) The sophistication and far-reaching impact of corporate activities requires a governing board with appropriate knowledge and expertise. Should the NCUA have minimum standards for directors that would require a director possess an appropriate level of experience and independence?
b) What other changes should the NCUA consider, such as term limits, allowing compensation for corporate directors, and requiring greater transparency for executive compensation?
c) Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model?
d) Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors and if so, what should the minimum qualifications be?
e) Should the NCUA also establish a category of "outside director," i.e., persons who are not officers of that corporate, officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry and if so, should the NCUA require that corporates select some minimum number of outside directors for their boards?
f) Should a wholesale corporate credit union be required to have some directors from natural person credit unions?
g) Should NCUA impose term limits on corporate directors, and, if so, what should the maximum term be?
h) Should corporate directors be compensated, and, if so, should such compensation be limited to outside directors only?
i) Should NCUA allow members of corporate credit unions greater access to salary and benefit information for senior management?
CCUSP Response – The CCUSP believes that a cooperative's board should be elected from its membership and not be compensated. Volunteerism and member governance are

key tenets of the credit union system. Credit unions have many highly skilled and talented executives who are well suited to serve on the board of a liquidity corporate. The selection of board members should consider their experience and qualifications but the specific requirements should not be set in regulations. However, the regulations could require ongoing training and education of directors.

Corporate Credit Union Stabilization Partnership
Corporate Credit Union Initiative

March 31, 2009

Corporate Credit Union Stabilization Partnership
Corporate Credit Union Initiative
March 31, 2009

Talking Points on Executive Summary of Report

1) Since late November, a group consisting of credit unions and industry experts has been studying the corporate credit union situation solely from a credit union perspective.
2) The group has solicited input from numerous sources throughout the industry.
3) The accompanying report describes a new credit union vision for the corporate system.
4) This vision includes three types of entities:
    a) A corporate charter to provide short-term investment and liquidity products as well as payment and settlement services.
    b) A broker/dealer to provide longer-term investments and investment advisory services.
    c) A CUSO to facilitate long-term credit union liquidity through participations, securitizations and other means.
5) Term investments would not be provided through depository accounts at corporates, after a transition period to implement the new vision.
6) The plan calls for massive consolidation within the corporate system in order to generate up to $250 million in annual expense savings.
7) The group believes consolidation will need to be “driven” by the NCUA, while delicately handling related public relations issues and minimizing undesirable consequences.
8) The group’s recommendations provide a transition framework to manage the corporate system through the workout of its current financial crisis to the new vision.
9) The transition framework can be used regardless of whether or not the corporates’ losses can be managed within the credit union system or are so large that external funding is required.

EXECUTIVE SUMMARY

Overview

Credit unions must work together to solve the financial challenges faced by the corporate credit union network (including the corporates and U.S. Central, collectively the CCN). The Corporate Credit Union Stabilization Partnership (CCUSP) is a workgroup of credit unions formed to address this situation by providing thought leadership and mobilizing the credit union system around strategies to resolve the CCN's problems.

This group has a future vision for the CCN that includes three types of entities:

1) A corporate charter to provide short-term investment and liquidity products as well as payment and settlement services.
2) A broker/dealer to provide longer-term investments and investment advisory services.
3) A CUSO to facilitate long-term credit union liquidity through participations and securitizations.

The group supports massive consolidation in the corporate system in order to generate up to $250 million in annual expense savings. These savings are independent of the ultimate level of realized losses on CCN investments, so that this transition makes sense regardless of the severity of the current crisis. The group believes consolidation will need to be "driven" by the NCUA, while delicately handling related public relations issues in order to minimize undesirable consequences. The group's recommendations provide a transition framework to manage the corporate system through the workout of its current financial crisis to the new vision. The transition framework proposed can be utilized regardless of whether or not the corporates' losses can be managed within the credit union system or are so large that external funding is required.

Objectives and Approach

The CCUSP commissioned this project to help credit unions manage through the current financial situation with the CCN while (1) minimizing the overall economic impact of the situation, (2) positioning the CCN to meet the needs of credit unions going forward, and (3) putting the right framework in place to avoid similar situations in the future. The approach to this project considered the CCUSP's desire for an open, industry-wide solution, while gaining input from credit unions, performing analyses of the current situation, developing strategies to work through the CCN's financial challenges, and creating mechanisms to meet the needs of credit unions.

Vision of the Future CCN

Credit unions believe that the current CCN structure of many corporates plus a wholesale corporate no longer makes sense. These credit unions favor a CCN without a wholesale corporate tier and composed of no more than a handful of corporate credit unions, and probably only one. They believe that such a structure would accelerate the natural consolidation that already is taking place and result in a more efficient CCN that would not assume inappropriate risk as the result of competition among corporates. Further, credit unions favor a structure that includes several entities that appropriately segregate the products and risks now present in each corporate entity:

- *Liquidity corporate* – This corporate credit union could provide investment and lending products with terms of 90 days or less, along with all of the settlement and correspondent services that the corporates offer today.
- *Broker/dealer* – A broker/dealer entity would be in the best position to offer the longer-term investments, brokered CDs, structured products and investment advisory services that today are offered through the CCN.
- *Liquidity vehicle* – This entity would help credit unions achieve long-term funding by securitizing various types of credit union loans and participating loans among credit unions. It also could help facilitate long-term, on-balance-sheet borrowing by credit unions.

The CCUSP credit unions realize that term product offerings and a corporate charter to support them also might be necessary during a transition period as the CCN's existing assets and liabilities mature, but they do not believe that a corporate charter is the best vehicle for providing term investments to credit unions. The CCUSP generally favors internal support of the transition to the new CCN structure. Only in the most extreme circumstances would the CCUSP advocate using U.S. government assistance, such as TARP or similar funding, and even then only after considering the related political, regulatory and other ramifications.

We analyzed the economic feasibility of a liquidity corporate to determine if such a structure could generate sufficient income to cover its operating expenses and capital structure. Based on estimates for expense models including one and four corporates, a liquidity corporate does appear to be viable. The base case market-share scenario shows that net income might be as high as $55 million under a model including four corporates to $164 million in a model including one corporate. Even under the four-corporate model, the liquidity corporate would continue to be profitable down to about 50 percent of today's CCN market share.

Workout Strategies for the CCN's Current Financial Position

As of November 2008, the CCN had unrealized losses totaling $17.8 billion against total net capital of $6.7 billion, for a combined net equity position of about *negative* $11.1 billion. A key objective in working through today's challenges is to prevent these unrealized losses from being realized as the result of sales of investments at prices well below their original book values.

The keys to minimizing the cost of the financial crisis to credit unions are to ensure sufficient liquidity in the CCN to avoid the need to sell the securities at a loss while preserving or creating capital to offset any losses. The CCUSP credit unions advocate several techniques to minimize the overall NCUSIF premium:

1. *Pay down all credit union loans from corporates* – This will help to maximize liquidity and avoid securities sales.
2. *Have credit unions maintain liquid balances in the CCN* – Having credit unions maintain their balances in the CCN is the most readily available and least expensive method of

minimizing the cost of the financial crisis. Accomplishing this is predicated on maintaining the support of credit unions by demonstrating that the CCN structure is evolving in the manner they believe is necessary to best support their long-term needs.

3. *Eliminate dividends on CCN PIC and MCS* – The complete use of earnings to absorb losses is a technique to minimize the possibility of write-offs by credit unions.
4. *Provide cross-guarantees of all CCN exposures* – Using all CCN capital through the effective mobilization of that capital across the CCN would decrease the magnitude and likelihood of losses at any single credit union.
5. *Create efficiencies to increase earnings in the CCN* – As discussed earlier, the CCUSP believes that there are significant operating efficiencies available in the CCN. The earnings from these savings could provide a significant capital cushion against future losses.
6. *Have corporates issue capital notes to credit unions* – The issuance of capital notes is one idea for credit unions to provide a stable source of funding to the CCN while insulating the NCUSIF against losses and thereby reducing the overall premium. Another idea would be long-term share accounts. However, each of these options requires significant analysis, including access to the PIMCO modeling results and close collaboration with the NCUA. A key to making any type of long-term funding idea salable to credit unions would be in offering the credit unions potential returns that are commensurate with the risks of the capital instruments.

In any case, it is important to be able to describe each of these techniques, and any others proposed by the NCUA, in the context of their premium savings. What is the impact on the NCUSIF premium of implementing each specific action?

Transitioning to the Vision of the Future CCN

The CCUSP has several recommendations to support a smooth transition to the new CCN structure:

1. *The NCUA must drive change within CCN* – The corporates in the CCN have not demonstrated that they can work together in a cohesive manner to lead the way out of this crisis. Credit unions could do this but the CCUSP believes that the central leadership of the NCUA, through the thoughtful use of its various authorities, is the most effective and timely manner of addressing today's issues.
2. *Any action should be evaluated against the risk of exacerbating the situation and implemented in a manner designed to minimize undesirable consequences* – Although the NCUA has the ability and right to enact regulatory action without warning, we recommend that every effort be made to engage credit union participants prior to any action.
3. *Transitional issues must balance the negative consequences of potential NCUA actions versus short- and long-term benefits and cost savings* – We all must keep long-term objectives in sight as we transition to the vision of the future CCN.
4. *Any transition plan must be "salable" to industry leaders in order to maintain credit union participation and avoid splintering the industry* – The transition must involve credit unions, as well as other leading industry groups and experts, to ensure credit unions remain committed to the overall credit union movement.

Corporate Credit Union Initiative Executive Summary

We believe that the ultimate management of the liquidity corporate, broker/dealer and liquidity facility should fall under a corporate management CUSO holding company structure (corporate management company). Such a structure would have the potential to oversee multiple corporate charters through a transition period during which the assets and liabilities of the existing corporates are in a run-off situation, while still achieving significant operating expense efficiencies.

The corporate management company should coordinate the consolidation projects to be led by a transition team and largely staffed by existing CCN personnel. The transition team, consisting of experts from credit unions and other industry participants, should include project management, investment, operations, finance, communications, and administrative functions falling under the supervision of the corporate management company. We believe that the transition team can implement many quick-hit changes to achieve expense savings in 30 to 90 days and complete the bulk of the transition in 12 to 18 months, with certain other follow-up activities to be completed after that time. The corporate management company and transition team approach could facilitate the transition regardless of the ultimate level of losses on CCN investments.

An important part of the transition will be to solidify the view of the future CCN. We recommend that the corporate management company lead a three- to six-month analysis to solicit input from all segments of the credit union system and finalize the future vision.

Finally, we recommend that credit unions serve on a new U.S. Central board and ALCO, which together will oversee the transition.

Summary

The transition to the new vision of the CCN will be a difficult process. Implementing the new credit union vision will change most of what we recognize as the CCN today. However, working through the CCN’s financial crisis and moving to a more efficient CCN will help ensure that credit unions can continue to fulfill their mission of providing financial services to their members well into the future.

Corporate Credit Union Initiative Report
Corporate Credit Union Stabilization Partnership

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INTRODUCTION, BACKGROUND, OBJECTIVES AND APPROACH

Introduction

Today is a unique time in the history of the credit union system. Our industry stands at a point where we need to find ways to improve the financial position of the corporate credit unions and U.S. Central (collectively, the Corporate Credit Union Network or CCN). This is necessary ensure the CCN can continue to serve the needs of credit unions, and minimize the costs of insurance and regulatory actions related to the situation. We have the unique opportunity and obligation to strategically direct the path that the CCN will take in working through today's challenges and ensuring that similar situations do not arise in the future. Selecting the best strategies and communicating those ideas to credit unions and the NCUA requires leadership, thoughtful analysis, consensus building, and effective project management, as well as prompt action.

The Corporate Credit Union Stabilization Partnership (CCUSP) is a workgroup of credit unions formed for the purpose of addressing the financial challenges that today face the CCN. The Rochdale Group was retained to gather input from the credit unions and summarize their feedback to industry leaders. A steering group consisting of the CEOs from four credit unions was formed to ensure the project work moved along in a timely manner. The CCUSP first developed a paper summarizing the ideas of credit unions, and obtained input on the ideas from a large group of credit unions and corporates, before ultimately presenting the paper to the NCUA. That paper described the workgroup's ideas for improving the financial condition of the CCN, setting the stage for positive change going forward, and largely avoiding the need for the types of governmental controls and support that recently have been extended to other financial institutions.

This report presents the results of the Corporate Credit Union Initiative, which was commissioned by the CCUSP and coordinated by Rochdale. The report begins by summarizing the objectives and approach to the Initiative, which has helped the CCUSP ensure that the cohesive voice of its members is heard by other credit unions, the CCN and NCUA. The report then presents background information on the CCN crisis before detailing the findings and recommendations resulting from the work of the CCUSP, Rochdale, and many other participants in the credit union system.

Background

The recent general economic crisis and more specific deterioration of the mortgage-related securities market have had a profound impact on all financial institutions, including the CCN. The CCN has experienced large decreases in the market values of its investments. As of November 2008, unrealized losses totaled \$17.8 billion on the CCN's combined investment portfolio of \$71.2 billion (excluding the corporates' deposits with U.S. Central).

At the same time, the CCN reported about \$3.7 billion in pure equity on NCUA 5310 reports, consisting of reserves and undivided earnings (RUDE) and paid-in capital (PIC), excluding U.S. Central PIC held by other corporates. Credit unions held \$3.0 billion in membership capital shares (MCS) at corporates, giving the CCN total net capital of about $6.7 billion. Combining the unrealized losses of $17.8 billion with this overall capital left the CCN with a combined net equity position of about *negative* $11.1 billion.

CCN personnel, and other investors, have consistently reiterated the belief that the temporary inefficiencies in the securities markets have pushed the market values for certain investments well below their expected realizable values. However, the CCN recently has begun to acknowledge that there have been adverse changes in the cash flow expectations for some of its investments. As a result, U.S. Central recognized a $1.2 billion charge for other-than-temporary impairments (OTTI) in securities values near the end of January 2009. U.S. Central's RUDE and PIC totaled $997 million, meaning that the charge would more than erase its primary capital as of November 2008. Such a charge would put U.S. Central in a precarious capital position, in which it would be in violation of regulatory requirements and likely jeopardize its ability to function normally in the investment and capital markets.

To reinforce U.S. Central's capital, the NCUSIF announced a $1.0 billion primary capital infusion into U.S. Central on January 28, 2009. The infusion is in the form of a PIC account with a perpetual maturity, eligible for redemption after two years, and having seniority over other U.S. Central PIC and MCS. Given that the OTTI charge exceeds U.S. Central's RUDE and PIC, the NCUSIF essentially owns all of the primary capital in U.S. Central at the present time.

In addition to the capital infusion to U.S. Central, the NCUA Board announced several other actions on January 28 to support the financial stability of the CCN, as well as the credit union system in general. These actions are described in detail on the NCUA Internet site (see http://www.ncua.gov/Resources/CorporateStabilization/index.aspx) and summarized in the following list:

1. Guarantee of shares at all corporates through February 2009 and creation of a voluntary program for corporates to continue this coverage through at least December 2010.
2. Issuance of an ANPR on restructuring the CCN with a 60-day comment period ending April 6, 2009.
3. Declaration of a 2009 premium assessment to restore the NCUSIF's equity ratio to 1.30 percent.

It is important to note several issues related to these actions. First, the initial share guarantee only was for 30 days and corporates then had to decide whether or not they would participate in the longer guarantee. In so opting, they agreed to a stipulation that "requires the management team of each participating corporate credit union to be subject to supervisory conditions and terms defined by the NCUA." We have come to learn that the corporates that accepted the voluntary program are operating under strict letters of understanding. Only four corporates declined to participate in the voluntary insurance program: EasCorp, First Carolina, Iowa and Midwest.

The NCUA will conduct detailed analysis of the potential losses associated with CCN investments to determine the liability that the NCUSIF will recognize for its obligations on the increased share insurance coverage. The first estimate of this liability is $3.7 billion. The NCUSIF then will assess premiums to credit unions to recover the $3.7 billion liability and

$1 billion capital infusion at U.S. Central. The NCUA estimates that these premiums will reduce an average credit union's return on assets by about 62 basis points in 2009. For a credit union with $1 billion in assets, this will result in a $6.2 million assessment. Any actions that credit unions can take to reduce the $3.7 billion liability will increase their 2009 returns. Any actions that they can take to shorten the length of the share guarantee will accelerate the receipt of any premium refunds. Thus, credit unions have an opportunity to voice suggestions and lead changes that could make a substantial difference in their returns over the next several years.

The NCUA actions announced on January 28 are consistent with the ideas and recommendations proposed by the CCUSP. The CCUSP already has been talking with a great number of credit unions in developing ideas for dealing with the financial challenges of the CCN. It has presented those ideas to the NCUA, and we believe that the NCUA has valued and used the CCUSP's input.

Objectives

The primary objective of the Corporate Credit Union Initiative is to help credit unions manage through the current financial situation with the CCN. This project uses the input of credit unions, analysis of the current situation, and credit unions' needs for future support in order to craft a unified response to the NCUA's Advance Notice of Proposed Rulemaking (ANPR). The goal will be to make recommendations that will accomplish the following:

1. Minimize the overall economic impact of dealing with the current CCN investment situation.
2. Better position the CCN to meet the needs of credit unions.
3. Put the right framework in place to avoid similar situations in the future.

This initiative gives credit unions the opportunity to contribute ideas to a cohesive plan to improve the CCN, while potentially reducing the premiums that credit unions will pay to the NCUSIF and shortening the time during which the NCUSIF will hold those premiums. Credit unions will be able to participate in solving the CCN's problems and ensuring the CCN meets their needs. The CCUSP believes that sharing ideas and working together will result in a much more powerful message to the NCUA, and will minimize the overall costs of developing and communicating recommendations.

Meeting the objectives requires close collaboration with credit unions because credit unions should set the direction of the CCN. Doing so also requires the consideration of a variety of complex alternatives that impact how the CCN will transition from today's situation to one that will focus on the needs of credit unions.

Approach

Rochdale's approach to this engagement stresses the CCUSP's belief that an open, transparent, industry-wide solution is the best way to address the CCN's financial challenges. The approach considers the need to quickly obtain input from credit unions, perform complex analysis, evaluate the CCN's investments, manage all the related projects, prepare a strong response to the

NCUA's ANPR, and gain the acceptance of as many credit unions as possible for the recommendations. The following are the major steps in the approach:

1. Provide suggestions to the NCUA on its modeling of the CCN investment portfolio, including potential losses and an equitable method of allocating premiums to credit unions.
2. Obtain input from credit unions on their ideas regarding the CCN and needs for specific CCN products.
3. Formulate workout strategies for the CCN's current financial crisis.
4. Obtain independent legal review, if deemed beneficial by the CCUSP credit unions, of the rights and responsibilities of credit unions in these types of circumstances.
5. Prepare analyses of various future scenarios considering the key environmental influences.
6. Prepare a detailed response to the NCUA's ANPR on Part 704.
7. Maintain close communication among the credit unions sponsoring this project by holding regular status meetings to obtain timely input and discuss progress.

The remaining sections of this document present the results and recommendations of the Corporate Credit Union Initiative.

INPUT FROM CREDIT UNIONS AND OTHER INDUSTRY PARTICIPANTS

The project team has conducted numerous discussions with the members of the CCUSP, other credit unions, corporates, the NCUA, CUNA and other organizations associated with the credit union system. These conversations have taken the form of joint presentations to the NCUA, presentations to the CUNA Corporate Credit Union Task Force, multiple conference calls to discuss various papers issued by the CCUSP team, in-person working sessions, and many other communications. We plan to conduct a number of additional meetings, during which we will obtain general input from many more credit unions as well as specific feedback on the results of our analyses and recommendations.

Views on Current Situation and Strategies

Different constituencies have different views on the current situation and the strategy to overcome today's challenges. It is clear that the CCN prefers a "wait and see" strategy. The CCN continues to believe that investment valuations eventually will improve and that the CCN has the ability to hold investments until they mature. Of course, if the market values do not improve or the credit unions continue to pull funds from corporates, this strategy will not succeed. Also, as the corporates have been forced to acknowledge that some of the unrealized losses on their investments have become other-than-temporary impairments (OTTI), they too have begun to agree that changes are necessary to address the CCN's financial challenges.

The NCUA formally has not publicized a strategy. Conversations with NCUA personnel indicate the NCUA's keen attention to the situation and likelihood of significant analysis on the part of NCUA staff. They have indicated their desire to work with the credit union industry to support strategies driven by credit unions and corporates. The NCUA's recent actions to infuse capital in U.S. Central, provide guarantees on credit union deposits in corporates, and solicit comments through the ANPR process on how to address the situation demonstrate the NCUA's action to address the problem if the CCN and credit unions do not swiftly implement their own solutions.

Credit unions have a strong consensus on what needs to be done. They have met and then presented plans favoring an industry approach to the economic challenges facing the CCN today. Credit unions want to preserve the important advantages of the credit union system in serving their members and fulfilling their objectives to help people improve their finances. Credit unions favor an approach of providing the liquidity necessary to help the CCN avoid realizing the investment losses that would be created through liquidity shortfalls in the CCN. They would prefer to place additional funding with the CCN, operating under strict guidelines and the close supervision of credit unions, rather than risk the losses from the liquidation of the CCN's assets. Credit unions believe that we must craft an industry plan to lead the CCN to a more efficient and focused structure to meet the vision of credit unions.

Insight Gained from Recent Discussions with Industry Leaders

The CCUSP spoke with a great number of industry participants as it developed the ideas in its original paper. These discussions involved many leading credit unions, large and small, as well as corporate credit unions, the NCUA, trade association representatives, and other industry experts. These meetings gave the CCUSP the opportunity to hear opinions from a diverse group of people that are interested in the credit union industry, and who have not always shared the same views in the past.

The original CCUSP paper had several overriding themes, including the need for industry-wide action and open communications. The members of the CCUSP, as long-standing industry participants, had ideas for potential changes in the structure of the CCN but deliberately did not propose those ideas in the original paper, as they wanted to get wide input before forming definitive recommendations. At the same time, the original paper discussed the need for action, rather than taking a “wait-and-see” approach, because time is of the essence in securing ongoing liquidity for the CCN.

During discussions subsequent the presentation of the original paper, it became clear that a great deal of consensus already exists among credit unions on the need for structural change in the CCN and a vision for its future. Most, but certainly not all, industry participants believe that the current CCN structure of many “full-service” corporates supported by a central corporate no longer makes sense. We have seen a gradual consolidation in the CCN during the last 10 to 20 years, but most observers believe the pace of that consolidation is too slow. Moreover, the consolidation has led to a situation of intense competition among corporates. This competition causes all corporates, including U.S. Central, to assume additional and potentially excessive risk, for the sake of paying a few additional basis points on credit union share and certificate deposits. The extremely thin margins the corporates can retain leave them little room to increase their capital positions to the point needed to support their increased risk positions.

One- versus Two-Tiered CCN Structure

As we have spent more time discussing the CCN structure with credit unions, it has become clear that most credit unions do not believe that the current two-tiered system of the CCN, with corporates and U.S. Central, represents the structure of the future for the CCN. In the early days of the corporates, the two-tiered system was created to help the corporates achieve certain economies of scale and increase bargaining power in designing products to support all credit unions. However, many of the larger corporates now are of sufficient size to achieve economies of scale independent of U.S. Central. Credit unions generally do not believe that the executive, investment, accounting, systems and other operating expenses that are duplicated in both tiers of the current system justify the benefits of maintaining the two tiers. Also, continuing political issues have diminished the effectiveness of the two-tiered system. Thus, the credit union vision for the future of the CCN includes one versus two tiers of corporate credit unions.

VISION OF THE FUTURE

Credit unions favor a one-tiered structure that includes several entities, under a common management group, that appropriately segregate the products and risks now present in each corporate entity:

1. *Corporate charter A* – This liquidity corporate could focus on settlement and payment systems. It could offer only very short-term (e.g., less than 90-day) investments and loans. It could maintain a conservative portfolio structure with regard to interest-rate, credit and liquidity risk.
2. *Corporate charter B* – A second corporate charter, under common management with the liquidity corporate, might offer longer-term balance sheet products. The CCUSP believes that this term corporate is necessary during a transition period during which the assets and liabilities of the existing CCN are declining, but the CCUSP group does not have a need for the term corporate in the future. The CCUSP acknowledges that smaller credit unions may continue to need this type of support going forward, and believes that the best way to provide these term products would be through a broker/dealer.
3. *Broker/dealer* – The group also could have a broker/dealer to offer off-balance-sheet products, including investment securities, brokered certificates of deposit, and advisory services.
4. *Liquidity vehicle* – This entity, which might be similar to Charlie Mac, could be the conduit for providing medium- and long-term liquidity to credit unions using participations, securitizations and other techniques for auto, credit card, home equity and other loans.

Each of the above entities could benefit from its singularity of purpose and clarified risk posture. We discuss the process for determining the optimal number of corporates in a later section of this report.

Corporate Charter A – Liquidity Corporate Credit Union

This corporate credit union could provide the short-term investment and liquidity products generally associated with credit union settlement and short-term asset-liability management functions. In support of these functions, the liquidity corporate could maintain a conservative investment portfolio, with relatively limited interest-rate, liquidity and credit risk. This entity could maintain a commercial paper program, membership in the FHLB system, and other lines of credit in order to access outside sources of liquidity. The liquidity corporate could offer the following investment and lending products:

- Overnight accounts
- Short-term certificates with maturities less than 90 days
- Repo and reverse repo transactions
- Overnight loans
- Term loans with maturities of less than 90 days
- Lines of credit and short-term letters of credit
- Central Liquidity Facility advances

The liquidity corporate also could provide most of the correspondent services now offered by corporate credit unions:

- Wire and ACH transfers
- Automated settlement
- Securities safekeeping
- Check processing including physical check presentment and imaging
- Lockbox services
- Vault cash services
- Money orders and Western Union transfers
- Collection item processing
- Foreign wire transfers
- Foreign currency services
- TT&L processing
- ATM servicing and networking
- Credit and debit card services
- Internet bill payment services
- Stored value cards
- Member business lending support
- Fraud prevention services

Corporate Charter B – Term Corporate Credit Union

During a transition period, the term corporate credit union could manage the longer-term investment and lending products now offered by corporate credit unions. In support of these products, the term corporate could manage the CCN's existing long-term investments as these assets and their related liabilities amortize and mature. This separation of investment philosophy could effectively isolate many of the investment techniques that generally are thought of as more risky in the term corporate.

The CCUSP credit unions do not support a term corporate after the transition period. They believe that this entity should be maintained only during the transition period during which the assets and liabilities of the current CCN are declining. The CCUSP believes that the functions of the term corporate could be provided more effectively by a broker/dealer that offers investments, brokered insured bank CDs, and brokered deposits at other natural person credit unions.

During the interim period, the term corporate could provide the following types of products to its credit union members:

- Term certificates with maturities of 90 days or more
- Structured certificates having embedded optionality, including callable, step-up and amortizing certificates
- Floating rate term certificates
- Long-term loans

Broker/Dealer

The broker/dealer could provide off-balance-sheet products to credit unions:

- Marketable securities
- Brokered insured bank CDs
- Brokered deposits at other natural person credit unions
- Investment advisory services
- ALM modeling services

Liquidity Vehicle

This entity could be a facilitator of long-term funding options for credit unions. It could lead loan securitization efforts as well as the creation of loan participation pools. It could sell the resulting assets to investors within and outside of the credit union system, and become an important tool in raising liquidity for credit unions. Its asset securitizations and participations could use the following types of loans:

- Automobile loans
- Mortgage loans
- Home equity loans
- Credit card receivables
- Student loans
- Other personal installment loans
- Member business loans

Additionally, to the extent that credit unions have on-balance-sheet borrowing needs that are not being met by existing government sponsored enterprises (GSEs), such as the FHLBs, or other sources, the liquidity vehicle could lead efforts to meet such needs by arranging long-term lending or establishing a GSE-like entity for this purpose.

Capital Issues for the New CCN Structure

Our response to the NCUA Regulation 704 ANPR includes our recommendations on capital structure and requirements for the CCN.

As for the source of any capital needed now or in the coming years, we believe there are three options depending on the magnitude of the required infusions:

1. *Only modest capital infusions are required* – As of December 2008, natural person credit unions had over $89 billion in RUDE (net of unrealized losses and other comprehensive income items). In aggregate, this level of primary capital could absorb a considerable amount of losses. Although the NCUSIF premium already discussed would be a significant burden for credit unions, it would cause relatively small numbers of credit unions to fall from well capitalized or adequately capitalized status to a status of undercapitalized or lower. (We estimate that 81 credit unions would fall from the well or adequately capitalized categories to

the undercapitalized or worse categories as the result of writing off all of their PIC and MCS in the CCN, totaling about $3.6 billion as of December 2008.) As long as the losses that credit unions are asked to absorb do not increase dramatically, credit unions should be able to provide the capital necessary to support the CCN through the transition to the new structure.

2. *Massive capital infusions are required* – If realized losses approach or exceed the CCN's current level of unrealized losses, credit unions would be significantly impacted by bearing the full weight of the CCN's losses. For example, the $17.8 billion in losses as of November 2008 represents about 20 percent of credit unions' overall net worth. Forcing credit unions to bear this level of loss over a short period of time undoubtedly would cause a great number of credit unions to fall to undercapitalized categories and become subject to NCUA corrective actions.
3. *Moderate capital infusions are required* – This intermediate case probably is the most likely scenario. In this case, it is likely that credit unions could bear most of the burden of infusing capital into the corporates to mange their transition to a new structure. This would be particularly true if the NCUA or other agencies could provide funding and regulatory prudence in helping the credit unions manage their own positions back to a level of strong capitalization, such as they have today.

NUMBER OF CORPORATES IN THE FUTURE VISION

After deciding on a one-tiered structure, the next decision becomes one of deciding on how many corporates, modified to meet the future vision of the liquidity corporate plus broker/dealer plus liquidity vehicle, should be in that one-tiered vision. The CCN today has 26 corporates plus one wholesale corporate. Most credit unions see a much smaller number of corporates in the long-term vision of the CCN.

Key Considerations

The parameter that most affects perceptions of the optimal number of corporates is the asset size required to support independent investing and risk management activities. Today, only three to five corporates are thought of us having such independent capabilities: Wescorp, Members United, Southwest, Constitution and Corporate One. Of course, as their NEV ratios demonstrate, none of these entities have been substantially better or worse than U.S. Central in managing investment risks.

Another factor to analyze is the additional size that would be required to provide the settlement and systems products that U.S. Central provides for the CCN. If the industry were to create a CCN where each corporate would operate completely independently in serving credit unions, each would have to duplicate U.S. Central's settlement and systems products. This consideration would tend to increase the required size of each corporate and thus reduce the "ideal" number of corporates in the future vision of the CCN.

A third factor, which some observers believe has contributed to the CCN's precarious financial position, is the irrational competition that has occurred between corporates. Many people believe that the strides corporates have made for members through their unlimited fields of membership have caused them to assume risk that is not commensurate with the narrow spreads available in their competitive environment. Competition generally is a beneficial factor that causes companies to develop innovative approaches to meeting customer needs while still generating attractive levels of return. It is possible that the not-for-profit nature of the CCN, coupled with the desires of the credit unions to realize higher returns while forcing the companies that they own to assume the related risks, have created non-market forces that influenced the CCN's behavior. Throw in the political maneuvering of many participants in this market and the result is a CCN forced to assume a high level of risk, retain minimal capital, and pay above market rates on investments, while at the same time using investment earnings to subsidize loss-leader pricing on correspondent services.

Federal Reserve System Example

The structure of the Federal Reserve System is interesting to note. The Federal Reserve is managed by a central board but has twelve separate banks serving specific geographic regions. Each of the banks has one to five branches. The evolution of this system has been heavily influenced by geography, and the increasing pervasiveness of digitization and imaging has begun to have profound impacts on the Federal Reserve Banks. They have reduced the number of their locations over time, and have undertaken initiatives to serve their members using the best aspects of their operations in one or two of the banks. Thus, one bank handles check processing, another handles payments, a couple handle most shared systems, another bank handles savings bond processing, etc. This strategy of operations allows the Federal Reserve to leverage its operations and become more efficient. This strategy only is realistic in a system with central management, having a holding-company structure.

Merger Accounting Issues

The number of corporates in the near future of the CCN vision also might be heavily influenced by the levels of unrealized losses in corporates today. Financial Accounting Statement No. 141, Business Combinations, now applies to corporate credit unions and requires such mergers to use the acquisition rather than pooling method of accounting. The consolidation of one corporate into another corporate would cause the assets and liabilities of the merging corporate to be marked to market. This method would cause the acquired entity's fair value of net assets, which would be negative for a corporates that does its own investing, to be included as an offset to equity. The NCUA has ruled that the pre-merger RUDE of the acquired corporate could be included in the post-merger RUDE of the combined entity, and this would prevent the retained earnings ratio of the surviving entity from suffering as the result of the merger. However, the recognition of the unrealized losses on held-to-maturity securities would increase losses appearing in accumulated other comprehensive income, or another equity category. If the negative net assets would be counted against any accounts that are included in the retained earnings or capital ratios, this treatment would make a merger potentially undesirable. This requirement might preclude mergers of any corporates except those with minimal unrealized losses. In any case, the CCUSP believes that the CCN could achieve substantial benefits in the form of reduced operating expenses even if it were necessary to maintain most of the separate corporate charters by utilizing a management structure over all corporates and leveraging the operations across those corporates.

Conclusions

So what is the optimal number of corporates in the CCN? The credit unions in the CCUSP believe that the CCN should have only one tier. They further believe that the number of corporates should be no greater than four, and probably should be only one. In any case, the corporates all should be included in a common management structure so that they can fully leverage the operations present in any one corporate, similar to how the Federal Reserve can leverage the operations of its banks in serving the banking industry. Being under the control of one board and management team would free the corporates from the political baggage of the last 30 years, and avoid the tendency for non-market competition. Credit unions would continue to have access to many alternative products through non-CCN channels. If the new CCN structure were to not meet the needs of all credit unions in one or more areas, those credit unions would have plenty of choices for alternative products, without creating one or two dozen alternatives within the credit union system itself.

Recommendation for Additional Analysis to Make a Final Decision

The CCUSP believes that making this decision requires a considerable amount of analysis. As the CCUSP voiced in its original paper, this type of decision should be made in an open and transparent manner, considering the input of many credit unions and other parties. We would be best served by reaching an industry-wide solution with a broad base of support. The analysis should consider many factors:

- Geographic and time zone considerations
- Competitive factors
- Ensuring that the voice of all credit unions can be heard
- Operations expense savings
- Contingency processing capabilities
- Too big to fail from an operations perspective
- Governance issues
- Target market
- Pricing model
- Service quality across a range of asset sizes
- Other factors

FEASIBILITY ANALYSIS OF LIQUIDITY CORPORATE CREDIT UNION STRUCTURES

We performed feasibility modeling of the liquidity corporate credit union structure. The primary purpose of this modeling was to ensure that a liquidity corporate could generate sufficient spread and fee income to cover its operating expenses and provide a reasonable level of return on credit union investments.

Interest Income and Expense

The key asset-liability management assumptions in our feasibility analysis are as follows:

1. The liquidity corporate would have a conservative investment portfolio with a policy designed to provide very little interest-rate, liquidity and credit risk. Appendix 1 to this report contains financial risk policy concepts that would be consistent with a conservative and liquid vision for the liquidity corporate.
2. It would achieve this goal by investment in very short-term fixed rate securities and only moderate-term floating rate securities.
3. The liquidity corporate would offer loans with terms of less than 90 days at an assumed rate of fed funds plus 25 basis points.
4. The credit ratings requirements on investments would be A1/P1 or AAA, generally limiting long-term investments to U.S. government and agency securities, as well as certain other asset-backed securities (ABS).
5. Any investments in mortgage-backed securities (MBS) would be in only agency MBS.
6. The overnight member shares would pay fed funds flat while the other shares with maturities of up to 90 days would average fed funds plus 20 basis points.
7. Approximately 65 percent of shares would be in overnight accounts while 31 percent would be in accounts with maturities of up to 90 days. The remaining balances would be in capital accounts. This composition is similar to that of most corporate credit unions today.
8. We used average asset and liability rates for the five-year period spanning 2004 through 2008 in our analysis. We also calculated interest income and expense using the average rates for each individual year in that period. Looking at the individual-year results could give an indication of the expected earnings volatility of the liquidity corporate.
9. The liquidity corporate, for analysis purposes, would have primary capital equal to 4 percent of total assets.
10. We assumed that the liquidity corporate would capture the same market share of credit union investments with maturities of less than 90 days as the CCN captures today. We found that credit unions had approximately $29.3 billion in corporate deposits with terms of less than 90 days as of the end of December 2008. However, overall shares at corporates in December were only 69 percent of the average corporate shares in 2008. Thus, to account for seasonality, as well as the recent runoff of deposits, we divided the $29.3 billion figure by 0.69 to arrive at an expected average deposits figure of $42.5 billion for the liquidity corporate. We consider this the “100 percent market-share scenario.”
11. We analyzed other market-share scenarios to provide examples of the potential income of the liquidity corporate with smaller and larger balance sheets.

Fee Income and Non-Interest Expense

We also used a number of key assumptions related to fee income and non-interest expenses in our analysis. First, we assumed that the liquidity corporate would achieve the same level of total fee income as the current CCN. In general, this is reasonable given that the liquidity corporate would offer essentially the same products as the current CCN. We obtained the fee income estimate by extrapolating the CCN's fee income through November 2008 to yield an annual figure.

Next, we completed a supporting analysis of the non-interest expenses of the combined CCN. A key assumption here is that it is extremely likely consolidations or management changes will occur in the CCN in response to today's financial crisis. We believe that such changes offer the potential to take advantage of operating efficiencies across the CCN, and such efficiencies should produce substantial reductions in overall operating expenses. Appendix 2 contains the results of our analysis in this area.

Appendix 2 has two major sections. Each section shows the major categories of operating expenses in the CCN and begins with a column showing the extrapolated combined operating expenses for the CCN for 2008. As can be seen, the CCN has total annual operating expenses of $430.6 million. The two sections in the appendix then present two different estimates of the potential operating expenses in the CCN, assuming we can achieve fairly significant efficiencies in managing the corporates out of their current situation.

The first section uses the operating expenses of four major corporates as a basis, and then adds additional expenses to allow the expense structures of those corporates to serve the entire credit union marketplace. The additional expenses include increases necessary for the four corporates to have the marketing and operational people to support a much larger base of credit unions than they support today. Appendix 2 shows the detailed assumptions we used for this approach in each category of operating expenses. In total, the assumptions produce total annual operating expenses of $254.6 million, for an annual savings of $176.1 million compared to today's total. We refer to this scenario as the "four corporates expense model."

The second section of Appendix 2 shows another estimate of the potential reduction in CCN operating expenses that might result from a consolidation in the CCN. This second estimate uses the actual operating expenses of Wescorp as a basis, and then adds additional resources to provide marketing and operational support to the entire country from such a single corporate. Again, Appendix 2 details the assumptions in this second estimate. The result is an annual expense estimate of $145.9 million, which would produce operating expense savings of $284.8 million annually. We refer to this scenario as the "one corporate expense model."

These estimates show that there are substantial opportunities for expense reductions in the CCN. A later section of this report provides additional discussion on how the credit union vision might influence the ultimate number of corporates required to meet the needs of credit unions.

Net Results

Appendix 3 brings the results of our expense analyses together with our interest income and expense assumptions for the liquidity corporate. The appendix shows different scenarios based on the liquidity corporate's market share of credit union investments with maturities of less than 90 days. Again, the 100 percent market-share scenario represents the current, seasonally adjusted level of less than 90-day deposits in the CCN. These balances of $42.5 billion represent a realistic base case for the balances that credit unions might maintain in a liquidity corporate going forward. Appendix 3 shows the historical average rates that applied to the balances allocated to each of the asset and liability categories, consistent with the liquidity corporate financial risk policy concepts discussed Appendix 1. Finally, the analysis considers the fee income and non-interest expenses discussed above. The following table summarizes the results of our analysis using the two alternative operating expense scenarios, as well as the current total expenses of the CCN:

Liquidity Corporate Financials (millions)	Current CCN Expense Model	Four Corporates Expense Model	One Corporate Expense Model
Interest Income	$ 1,537	$ 1,537	$ 1,537
Interest Expense	(1,412)	(1,412)	(1,412)
Net Interest Income	$ 125	$ 125	$ 125
Fee Income	185	185	185
Non-Interest Expense	(430)	(255)	(146)
Net Income	$ (120)	$ 55	$ 164
Return on Assets	-0.28%	0.13%	0.39%
Return on Equity	-7.08%	3.28%	9.68%

As can be seen above, the liquidity corporate has the potential to be successful under the most aggressive operating expense reduction assumptions. Even under the less aggressive operating expense scenario, the liquidity corporate probably is viable. However, a liquidity corporate might not be viable under the current expense structure of the CCN.

Alternative Market-Share Scenarios

We also adjusted the interest income and expenses in the above analysis to consider larger and smaller potential balance sheets for the liquidity corporate. These alternative market-share scenarios show the net income of the liquidity corporate, in each of the three expense models, for balance sheet sizes that range from 25 percent to 125 percent of the base case scenario. We did not adjust the fee income and non-interest expenses in these scenarios with the size of the balance sheet because corporates are thought to experience little correlation in these accounts related to changes in their balance sheets over short periods of time. The following table shows the net income of the liquidity corporate in the various market-share scenarios:

Net Income by Scenario (millions)	Current CCN Expense Model	Four Corporates Expense Model	One Corporate Expense Model
125 percent market share	$ (88)	$ 87	$ 196
100 percent market share	$ (120)	$ 56	$ 164
75 percent market share	$ (151)	$ 24	$ 133
50 percent market share	$ (182)	$ (7)	$ 102
25 percent market share	$ (214)	$ (38)	$ 70

WORKOUT STRATEGIES FOR THE CCN'S FINANCIAL POSITION

Potential investment losses are described using a variety of terminology, some of which is confusing to people reviewing the losses. The potential losses facing the CCN fall into three categories, described below in increasing order of certainty:

1. Unrealized losses – This category represents the difference between the book and market values of investments. Although the investor may be tracking this difference on its balance sheet, in the form of adjustments in investment balances and an offsetting equity account, the investor has not yet reduced net income to recognize these unrealized losses. In the case of fixed-income securities, which are the investments used by the CCN, the investor is only certain to realize this category of losses if the investor must sell the securities prior to maturity.
2. Recognized losses – This category represents losses that the investor records against income in its financial statements. Except for securities in a trading portfolio, whose unrealized gains and losses must continually be included in income, the investor generally only recognizes losses for securities it continues to hold when some event occurs that leads the investor to believe that the unrealized losses on a security are other than temporary (i.e., the security is other than temporarily impaired or OTTI). At that time, the investor reduces its book value on the security to the current market value and recognizes this write-down as an OTTI charge to net income. However, even at this point, the loss on the security is not certain, and the investor might recover the unrealized loss as the security nears maturity.
3. Realized losses – A realized loss occurs at the time an investor actually sells an investment for an amount less than its book value. At this point, the loss is locked in and directly affects the cash flows of the investor. Until the investor actually realizes a loss, there may be a chance to recover unrealized losses prior to maturity.

Potential Realized Loss Scenarios

As of November 2008, the CCN had \$3.2 billion in RUDE, \$0.5 billion in PIC (netting our U.S. Central PIC held by other corporates), and \$3.0 billion in MCS held by credit unions, for a total net capital position of \$6.7 billion. The CCN's RUDE stands between losses and the credit union's capital accounts, and NCUSIF guarantees apply only after exhausting the RUDE, PIC and MCS.

A range of potential realized loss scenarios are possible for the CCN. The impact on credit unions increases in these scenarios as the level of realized losses increases. The table below demonstrates the aggregate financial ramifications to credit unions under five realized loss scenarios:

Realized Loss Scenarios	Scenario Realized Losses	Remaining Unrealized Losses	Total Capital After Losses	Additional Capital Needed for 4% Capital Ratio	Additional Capital As a % of Total CU Assets
1. Realized Losses <= RUDE	3,190,063,294	14,631,608,313	3,551,412,101	(447,419,382)	0.00%
2. Realized Losses <= RUDE + PIC	3,685,202,702	14,136,468,905	3,056,272,694	47,720,026	0.01%
3. Realized Losses <= RUDE + PIC + MCS	6,741,475,396	11,080,196,211	-	3,103,992,720	0.37%
4. Realized Losses <= RUDE + PIC + MCS + 25% of Remaining Unrealized Losses	9,511,524,449	8,310,147,159	(2,770,049,053)	5,874,041,773	0.70%
5. Realized Losses <= RUDE + PIC + MCS + 50% of Remaining Unrealized Losses	12,281,573,501	5,540,098,106	(5,540,098,106)	8,644,090,825	1.04%

In the first scenario, realized losses are less than total CCN RUDE. In the aggregate, the CCN still would be solvent, and credit unions would not necessarily need to write down their investments in CCN PIC and MCS. Total capital in the CCN still would be in excess of the 4 percent capital ratio requirement.

In the second and third scenarios, realized losses exceed RUDE so that the credit unions would experience impairment in their PIC and MCS balances in the CCN. Credit unions would need to recognize these realized losses by reducing the book values of their investments and recording the losses against income. Also, the CCN's capital ratio would decline to below 4 percent, and it might be necessary to inject more capital into the CCN. The CCN generally would be considered insolvent in both of these scenarios, and likely would face conservatorship at some point in scenario two.

In the fourth and fifth scenarios, the realized losses by the CCN have significantly exceeded CCN capital and the CCN clearly would be insolvent. It would be under the management of the NCUA in both of these scenarios. The NCUSIF would cover losses in excess of RUDE, PIC and MCS under the voluntary guarantee, limiting the immediate losses of credit unions. However, given that credit unions capitalize the NCUSIF, any expectation of losses to be borne by the NCUSIF would be assessed back to all federally insured credit unions in the form of a premium. (Note that this premium assessment for the NCUSIF's contingent liability could occur in any of the earlier scenarios too, as soon as the NCUSIF could identify and quantify such a liability.)

It is conceivable that the ultimate losses could be large enough that the industry might need to seek assistance through TARP or another U.S. government source. Choosing such an alternative would introduce many political, regulatory and public relations issues into the recovery of the CCN. The CCUSP prefers an industry solution over public funding, and would recommend careful analysis of the implications of seeking public funding before pursuing that option.

Potential Impact of U.S. Central OTTI and Unrealized Losses on Corporates

As discussed above, the CCN reported about $3.7 billion in pure equity as of November 2008 on NCUA 5310 reports, consisting of RUDE and PIC, excluding U.S. Central PIC held by other corporates. Credit unions held $3.0 billion in MCS at corporates, giving the CCN total net capital of about $6.7 billion. However, the CCN had unrealized losses of $17.8 billion, meaning that the CCN had combined net equity of about *negative* $11.1 billion.

Recent U.S. Central and NCUA Actions Related to Capital

CCN personnel, and other investors, have consistently reiterated the belief that the temporary inefficiencies in the securities markets have pushed the market values for certain investments well below their expected realizable values. However, the CCN recently has begun to acknowledge that there have been adverse changes in the cash flow expectations for some of its investments. As a result, U.S. Central recognized a $1.2 billion charge for OTTI in securities values near the end of January 2009. U.S. Central's RUDE and PIC totaled $997 million, meaning that the charge would more than erase its primary capital as of November 2008. Such a charge would put U.S. Central in a precarious capital position, in which it would be in violation of regulatory requirements and likely jeopardize its ability to function normally in the investment and capital markets.

To reinforce U.S. Central's capital, the NCUSIF announced the $1.0 billion primary capital infusion into U.S. Central on January 28, 2009. The infusion is in the form of a PIC account with a perpetual maturity, eligible for redemption after two years, and having seniority over other U.S. Central PIC and MCS. Given that the OTTI charge exceeds U.S. Central's RUDE and PIC, the NCUSIF essentially owns all of the primary capital in U.S. Central at the present time.

Impact of U.S. Central OTTI Charge on Corporates

The U.S. Central OTTI charge has an implicit impact on the other corporates' capital. An analysis that demonstrates this impact is included as Appendix 4 to this document. We began our analysis by calculating the excess of the amount of the OTTI charge over U.S. Central's RUDE. This excess of almost $503 million is the implicit impairment in the corporates' investments in PIC and MCS at U.S. Central. Based on November 2008 balances, this impairment would completely eliminate the corporates' PIC investments at U.S. Central of $300 million and partially deplete their MCS investments of about $1.7 billion.

Next, we recomputed each corporate's retained earnings ratio, capital ratio, and NEV ratio considering the $503 million implicit impairment in primary capital as the result of U.S. Central's OTTI charge. Because this amount exceeds U.S. Central's PIC, we assumed that each corporate would experience a decline in primary capital equal to its investment in U.S. Central PIC. We then allocated the remaining $203 million in impairment to MCS balances, relative to each corporate's proportionate ownership of U.S. Central MCS. For example, if a particular corporate holds 10 percent of the overall U.S. Central MCS balances, we allocated 10 percent of the overall $203 million MCS impairment to that corporate. We assumed that these impairments would reduce the primary capital of the corporates as well as the asset-related denominator of the NEV ratio. (We did not adjust the denominators of the retained earnings and capital ratios because they use a 12-month rolling average balance).

Appendix 4 shows the results of this analysis in columns with the OTTI Allocation headings. Seventeen of the 26 corporates would experience reductions in retained earnings ratios to below the 2 percent level required to avoid reserving requirements. The implicit impact of the OTTI charge would substantially reduce the corporates' capital ratios, and push one corporate below the 4 percent capital ratio requirement of NCUA Regulation 704. Finally, the OTTI allocation would produce meaningful decreases in the corporates' NEV ratios, increasing the number of corporates with negative ratios from five to six. It is important to note that this analysis does not consider any OTTI charges that have or will be made by corporates subsequent to November 2008, other than the U.S. Central OTTI charge discussed above. Thus, the corporates that do most of their investing outside of U.S. Central may need to book OTTI charges that could dramatically reduce their retained earnings and capital ratios.

Impact of U.S. Central Unrealized Losses on Corporates

U.S. Central had total unrealized losses, including those on held-to-maturity securities, of almost $9.7 billion as of November 2008. Assuming that the $1.2 billion OTTI charge was a part of the $9.7 billion in unrealized losses, this means that U.S. Central still had $8.5 billion in unrealized losses that implicitly affected the capital of the other corporates.

Thus, the next step in our analysis was to use this $8.5 billion in losses to deplete the $1.5 billion in remaining MCS after the OTTI charge. We then subtracted the NCUSIF's $1 billion capital infusion at U.S. Central from the $7 billion in remaining unrealized losses, because the NCUSIF capital would stand between those losses and the corporates' shares at U.S. Central. We allocated this amount to the individual corporates based on their shares (excluding PIC and MCS) at U.S. Central as of November 2008, because a similar method of allocation would be applicable in the event of liquidation. We then used the allocated unrealized losses to further reduce the capital and NEV balances of the individual corporates, again considering that the allocations immediately would reduce the denominator of the NEV ratio.

Appendix 4 also includes the results of this portion of our analysis. As could be expected, the allocation of the unrealized losses to the corporates would have dramatic impacts on their retained earnings and capital ratios. All of the corporates would have negative retained earnings ratios except for Wescorp. (This results because Wescorp's relatively small share balances at U.S. Central mean that it would receive a relatively small portion of the allocated unrealized losses.) All but two of the corporates would have negative capital ratios, including only Wescorp and Iowa Corporate Central. Again, however, OTTI charges that the corporates book subsequent to November 2008 could dramatically reduce their retained earnings and capital ratios. All of the corporates except Iowa would have large negative NEV ratios with the allocation of the unrealized losses. In the case of the corporates that do most of their investing outside of U.S. Central, their own unrealized losses on investments push their NEV ratios to large negative values, indicating that they probably are no more effective than U.S. Central in avoiding unrealized losses.

Broad Goals to Minimize the Likelihood of Realized Losses

The workout strategies for improving the CCN's financial position and long-term viability have short- and long-term tactics. In its earlier papers, the CCUSP advocated four broad goals to restore credit union confidence in the CCN and mitigate the potential of unrealized losses becoming actual losses:

- *Ensure Liquidity*

- *Restore Transparency and Rebuild Confidence in the CCN*
- *Centralize Settlement*
- *Centralize Risk and Manage Competition to Stabilize CCN Balance Sheets*

These goals were designed to provide solutions to benefit the industry as a whole, rather than any individual entity. Some actions already have been taken been started. Also, we have seen the NCUA essentially adopt some of these goals, particularly in using the capital infusion at U.S. Central, corporate share guarantees, and the Credit Union SIP program to ensure liquidity and rebuild confidence in the CCN.

Overview of Techniques to Minimize the NCUSIF Premium Assessment

In discussing the calculation of the NCUSIF premium assessment, the NCUA described the factors that influence the amount of the premium. Staff members explained that the premium considers probabilities of default and expected losses given default. Thus, any actions that credit unions can take to reduce either of these two factors would reduce the amount of the premium. Potential actions could include any of the following techniques:

- Improving the market values of MBS and ABS.
- Increasing CCN retained earnings over time.
- Increasing other forms of CCN capital (that stand in front of NCUSIF losses).
- Improving liquidity in the CCN.
- Improving the real estate market in the U.S.
- Reducing interest rates.

Some of these actions are difficult if not impossible for credit unions to implement, particularly in the very near term. However, we believe that credit unions and the CCN can take several actions in a very short period of time that might be able to have a meaningful impact on the premium assessment:

1. Pay down all credit union loans from corporates.
2. Have credit unions maintain liquid balances in the CCN.
3. Eliminate dividends on CCN PIC and MCS.
4. Provide cross-guarantees of all CCN exposures.
5. Create efficiencies to increase earnings in the CCN.
6. Have corporates issue capital notes to credit unions.

The following subsections of this report discuss each of these potential actions in more detail.

Pay Down All Credit Union Loans from Corporates

An important aspect of minimizing the potential for turning unrealized losses into realized losses is to ensure that the CCN has adequate liquidity to avoid the need to divest of certain assets, at fire-sale prices, under any liquidity or seasonal situation. One readily available technique to bolster the CCN's liquidity is for credit unions to immediately pay down all loans from corporates, even if they are forced to obtain funding from other sources, such as other natural person credit unions or the CLF.

To support this measure, all corporates should allow such pay downs, assessing no pre-payment penalties or certainly penalties that do no more than compensate the corporate for a temporary opportunity cost between the loan rates and the rates on short-term investments. Based on November 2008 5310 information available from the NCUA, the CCN had $5.6 billion in outstanding loans to credit unions. The repayment of these loans over the very near term would have a substantial impact on improving the liquidity situation of the CCN. This would help to minimize the probability of the CCN needing to sell investments at prices below book value, thereby lowering probabilities of default and helping minimize the premium.

As necessary, the natural person credit unions could fund the pay downs with loans from the CLF. This would be a readily available and economic funding source. Also, the CCN should implement a policy of referring all loan requests to the CLF to ensure that credit union borrowing does not hamper the liquidity of the CCN.

Have Credit Unions Maintain Liquid Balances in the CCN

An obvious technique to provide liquidity to the CCN is for credit unions to maintain as much liquidity as needed by corporates in the CCN. Credit unions should attempt to minimize any withdrawals from the CCN in funding their operations, with a general emphasis on using private sources of liquidity from outside the CCN or using sources such as the CLF. This may become particularly important as summer approaches with its normal seasonal reductions in surplus funds. Of course, the CCN should actively communicate with the credit unions on liquidity positions so that credit unions do not go overboard in supplying funds and create other challenges for the CCN.

Eliminate Dividends on CCN PIC and MCS

Increasing retained earnings in the CCN will help to cushion any investment losses that the CCN must incur, either as the result of OTTI charges or investment sales for liquidity purposes. Thus, implementing techniques to maximize earnings will tend to increase the RUDE of the CCN. One readily available method of assisting in building RUDE would be for CCN entities to immediately eliminate dividends on PIC and MCS.

Ceasing to pay dividends on PIC and MCS would have several benefits. First, we estimate that the CCN would preserve approximately $40 million in primary capital annually as the result of this step. This would increase the RUDE available to cushion the NCUSIF from losses and reduce the NCUSIF premium assessment. Second, this step would be consistent with the actions that publically held financial institutions would take in the face of significant earnings pressures. This would send a signal that the CCN is serious and committed to addressing its financial challenges. Finally, the largest credit unions tend to have the smallest portions of their assets invested in the CCN but bear the majority of the potential for NCUSIF premium assessments as the result of their large deposit bases. Eliminating dividends on PIC and MCS would have a proportionately larger impact on the smaller credit unions. Many industry observers believe that this step would reassure the larger credit unions that all credit unions are bearing the cost of the CCN bailout, and in demonstrating this to the larger credit unions, the entire industry would benefit from the liquidity and other support that can be delivered from the largest members of the credit union system.

Provide Cross-Guarantees of All CCN Exposures

An important way to minimize both probabilities of default and expected losses given default would be to fully use the capital of all of the CCN. Given the current structure of the CCN, each corporate's capital stands in front of only that corporate's potential losses. Many corporates long have stood behind the shield that because they place all of their investments at U.S. Central and avoid direct investing, they have little or no exposure to credit, interest-rate and liquidity risk. However, an analysis of the implicit impacts of the recent OTTI and unrealized losses on corporates' capital ratios demonstrates that placing all investments at U.S. Central has not necessarily been a completely safe alternative. Moreover, given the similar exposures of the corporates that manage their own investments, it does not appear that a credit union can diversify its risks by investing in multiple corporates. As the many analysts that have reviewed the CCN over the years have concluded, there is a great deal of systemic and relational risk in the CCN.

Given that the exposures of the corporates and U.S. Central are so tightly interwoven, the fact that credit unions already have ultimate responsibility for NCUSIF losses in proportion to their natural person member deposits, and the idea that the CCN is marching toward some form of voluntary or regulator-forced consolidation, the CCN should consider providing cross-guarantees of all exposures of the corporates and U.S. Central. Such a technique would require certain accounting, legal and risk management analysis, and we realize that the NCUA cannot require this "mutualization" of CCN capital. The intent would be to essentially mobilize capital to flow wherever necessary within the CCN. The CCUSP advocates a voluntary election by all credit unions to make the mutualization of CCN capital possible. Accomplishing this goal would require a broad education program to explain the advantages of this technique to all credit unions and gain their acceptance.

The credit unions in the CCUSP support the mutualization of CCN capital, because they believe that such an approach would accomplish the following objectives:

- *Reduce overall credit union write-offs and NCUSIF premiums* – More efficiently using the capital of the CCN across all of its entities would reduce the likelihood of write-offs for losses at any single credit union and minimize the NCUSIF premium for all credit unions.
- *Have all credit unions share in the losses of individual corporates* – The CCUSP credit unions, consistent with the credit union system's philosophy of mutual support and cooperation, believe all credit unions should share in resolving today's financial crisis. Although many people would like to punish the credit unions that are the members of the corporates having the largest losses, the CCUSP credit unions do not advocate that kind of behavior. They acknowledge that no single entity can be blamed for the financial crisis, and the credit union system will be stronger in the long run by working together to resolve today's issues.

Create Efficiencies to Increase Earnings in the CCN

Some credit unions are beginning to feel the effects of our broad economic recession. Such effects are realized in the form of higher loan defaults and other negative impacts on earnings. The affected credit unions, like many other businesses, have begun to make the sacrifices necessary to preserve their assets. These tactics have included reductions in staff to minimize operating expenses, as well as other expense reduction techniques. Even the trade associations in our industry have begun to pare their expenses to confront today's economic uncertainties.

The CCN to date has made what are viewed as minor steps to reduce overall expenses. These have consisted of isolated staff reductions at corporate credit unions. However, the CCN incurs significant costs through its current structure, which duplicates many functions at a great number of CCN locations.

As described in an earlier section of this report, an analysis of November 2008 year-to-date results shows that the CCN has total annual operating expenses of about $430 million. The patchwork creation and evolution of the CCN since its inception, along with the competition among CCN components, has resulted in the duplication of key operations at many of the corporates and U.S. Central. Meaningful savings could result from the more efficient use of resources across the CCN. For example, if through consolidations in operations it were possible to eliminate most of the duplication across the CCN, it would be possible to achieve substantial reductions in overall expenses. Realizing these savings could increase combined net income by $176 million to $284 million annually in the CCN. This level of savings would be similar to the total current annual net income in the CCN of about $250 million, and would have a meaningful impact in offsetting any losses the CCN might incur on investments.

As described previously in this report, Appendix 2 presents analyses of the CCN's current expenses and the potential for reductions in those expenses.

Have Corporates Issue Capital Notes to Credit Unions

The keys to minimizing the expected losses of the NCUSIF fund are to (1) ensure adequate long-term liquidity in corporates to hold investments having unrealized losses and (2) provide balances that cushion any losses that would apply to the NCUSIF. At the same time, credit unions must have an incentive to provide such balances including an expectation for increased return over the alternative of simply funding a larger NCUSIF premium assessment. The strategy also must support the long-term vision that credit unions have for the CCN.

The following bullet points provide an outline of a potential structure raised by NCUA staff and expanded by the CCUSP for this type of strategy. The outline also summarizes the benefits such a strategy would have for credit unions, and explains their incentives for purchasing the capital notes:

1) Overview of potential capital notes structure:
   a) Each corporate with significant unrealized losses would sell capital notes to credit unions.

   b) Notes would be amortizing instruments structured to provide corporates with sufficient liquidity to hold their MBS and ABS investments over approximately the next ten years.
   c) Given the 20 percent annual investment amortization forecasts of the corporates, the outstanding balances of capital notes would be structured to be sufficient to provide the following levels of liquidity at future points in time:

Remaining Investments (@ 20% annual amort)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Beg Balance (billions)	$71.2	$57.0	$45.6	$36.5	$29.2	$23.3	$18.7	$14.9	$11.9	$9.6
U.S. Central Cash Flow	4.75	3.80	3.04	2.43	1.94	1.56	1.24	1.00	0.80	0.64
Corporate Cash Flow	9.49	7.59	6.08	4.86	3.89	3.11	2.49	1.99	1.59	1.27
Ending Balance	$57.0	$45.6	$36.5	$29.2	$23.3	$18.7	$14.9	$11.9	$9.6	$7.6

   d) The capital notes would be secured by the corporates' MBS and ABS investments.
   e) The notes would have creditor priority over the corporates' existing capital but would be subordinate to shares at the corporates.
   f) Individual corporates would issue the notes but losses at any location in the CCN would apply evenly to all of the notes.
   g) The notes carry an option to convert a portion of the investment to equity in the CCN at maturity (or when the open balance of investments or unrealized losses on the investments reach some relatively small balance).
   h) The notes would pay a floating rate of return that is *X* basis points in excess of the rate on borrowings on a related CLF funding program.
      i) For example, the notes would pay Libor plus 25 basis points while the CLF capital notes borrowing rate would be Libor flat.
   i) The notes would be eligible collateral against CLF capital notes borrowings.
2) Changes in NCUSIF corporate guarantee:
   a) Instead of the temporary guarantee by the NCUSIF on all corporate shares, the NCUSIF guarantee would be broken into two tiers:
      i) The first tier of the guarantee would be limited to $1 billion per year.
      ii) This first tier would have priority over CCN capital but would be subordinate to the corporate capital notes.
      iii) The second tier would be the current unlimited guarantee on all corporate shares.
      iv) This second tier would have priority over the capital notes but be subordinate to corporate shares.
   b) The two-tier guarantee would carry the stipulation that any unused capacity on the first tier guarantee in Year One, for example, could be carried over to Year Two.
   c) The guarantee also would include the stipulation that any cumulative unused portion of the guarantee at the end of the term would retrospectively be applied to losses in earlier years that were not covered by the NCUSIF.
3) Operational merger of all corporates and U.S. Central:
   a) All corporates with minimal unrealized losses would merge into U.S. Central.
   b) All corporates with significant unrealized losses would remain as separate legal entities but they would submit to be managed by a management holding company.
   c) The management holding company also would run U.S. Central.
   d) The holding company would be responsible for consolidating the operations of the entire CCN, including U.S. Central and the unconsolidated corporate entities.

4) Establishment of a credit enhancement fund (CEF):
   a) The management holding company would create a credit enhancement fund to provide additional protection against realized losses on CCN investments.
   b) The credit enhancement fund would be a part of the capital notes issuance.
   c) The credit enhancement fund would be funded by the $40 million in eliminated dividends on CCN PIC and MCS, as well as approximately $500 million in annual net income of the CCN that would be available post merger:
      i) This figure includes approximately $250 million in current annual net income plus a similar amount in annual operating expense savings that would result from the management holding company structure.
      ii) Effectively, all earnings of the CCN would go into funding the credit enhancement fund.
   d) The credit enhancement fund would have priority over tier one of the NCUSIF guarantee but would be subordinate to the capital notes.
5) Summary of combined CCN capital and guarantee structure:

Accounts in Ascending Order of Creditor Priority (All amounts in billions)	Annual Amount	Five-Year Amount
RUDE	$ 3.20	$ 3.20
PIC	0.50	0.50
MCS	3.00	3.00
NCUSIF guarantee tier one	1.00	5.00
CEF	0.50	2.50
Capital notes (amortizing as investments decline)	71.20	71.20
NCUSIF guarantee tier two	Unlimited	Unlimited

6) Other information:
   a) The management holding company would be able to apportion the credit enhancement fund to help defer any investment losses at any particular corporate.
   b) The management holding company also would cause the corporates to dividend amounts to each other so that the capital notes at all corporates proportionately share in the losses at any single corporate.
   c) CLF borrowing by credit unions would fund up to about half of the capital note purchases. The remaining funding would come from redeeming existing corporate shares and certificates into the capital notes.
   d) The NCUA would shut down the CLF borrowing for SIP to support the capital notes program.
   e) Upon the conclusion of the need for the capital notes, the holders would have the option of converting a portion of their notes into capital at the consolidated CCN. The amount of capital would be based on the requirement for a consolidated corporate that likely fulfills only settlement and short-term investing/liquidity functions.
   f) The management holding company also would create and run the off-balance-sheet entities that would offer investments, structured products, securitization and other services to credit unions.

Information Needed to Evaluate Premium Reduction Techniques and the Capital Notes

A number of key questions remain related to the capital notes alternative, as well as the various other techniques for minimizing the NCUSIF premium that we discuss above. The answers to these questions would help credit unions assess the benefits of each of the techniques. This information also would help credit unions compare the current NCUSIF premium assessment alternative to the assessment that would result under the capital notes scenario.

The analysis of the capital notes idea involves much more than the simple comparison of NCUSIF premiums under the current and capital notes alternatives. It also requires projecting the magnitude and distribution of losses over time and by corporate, and comparing such losses to the estimated CEF and NCUSIF projections over time in order to estimate any losses that would be borne by the holders of the capital notes. Also, an understanding of the process that the NCUA would follow in eventually returning the CCN to credit unions is important in estimating the value of the CCN to its future owners. The analysis ideally would estimate all of the related cash flows under the various alternatives over time, and discount those cash flows back to present values that then could be used in comparing the alternatives. Due to the inherent uncertainty in such calculations, the ideal analysis also might consider probability distributions of the various cash flows, so that a simulation analysis could consider a variety of alternative outcomes.

The following table summarizes a number of issues and questions that credit unions should attempt to resolve in analyzing the premium minimization techniques discussed in the above subsections of this report.

Information Needed to Analyze Premium Minimization Alternatives		
Issue	**Current Guarantee**	**Capital Notes**
1. $1 billion capital infusion at U.S. Central	Credit unions would pay $1 billion in NCUSIF premium in 2009.	Would credit unions still have to pay this premium under a capital notes scenario?
2. $3.7 billion additional NCUSIF liability	Credit unions would pay $3.7 billion in NCUSIF premium in 2009.	Would credit unions essentially be able to pay the $3.7 billion evenly over the next five years under the capital notes option?
3. How does the distribution of the projected losses across corporates affect the premium?	The $3.7 billion probably considers the location distributions for the loss projections. Will the NCUA use the RUDE, PIC and MCS at all corporates to cover the losses that exceed such capital accounts at any single corporate?	The capital notes description above includes a loss sharing provision that effectively uses the capital across all corporates in covering losses at any single corporate. We would need the distribution by location to analyze this issue.

Information Needed to Analyze Premium Minimization Alternatives		
Issue	**Current Guarantee**	**Capital Notes**
4. How does the distribution of the projected losses over time affect the premium?	The $3.7 billion probably considers the time distribution of loss projections.	Losses in excess of the $1 billion NCUSIF guarantee in a single year would go against the CEF and then the capital notes. This would mean that the credit unions would absorb losses in excess of the annual amount unless there is carryover from prior years. The look-back provision would allow credit unions to recover excess losses in a single year as long as the cumulative losses do not exceed the $5 billion total over five years. We would need the distribution of the losses over time to analyze this issue.
5. How would excess losses or increases in loss projections affect the premium and amounts that would be borne by the notes?	Credit unions would pay additional premiums if future NCUA analysis projects an increased potential liability for losses. The credit unions could receive returns of premium if the projections decline over time.	Losses in excess of $1 billion per year, that exceed the balance of the CEF, temporarily would be borne by holders of the capital notes and only would be recovered if losses over five years are less than $5 billion. We would need the distribution of the losses over time and by location to analyze this issue.
6. Are there any adverse contingent loss consequences of the capital notes alternative?	The credit unions essentially would book the liability for projected losses at the time the NCUSIF re-evaluates the loss projections and assesses a premium.	Would credit unions need to book some sort of contingent liability for the losses, if any, that the capital notes will be projected to cover in future years?
7. What impact does combining the capital of all corporates to cover any losses have on the premium?	Does the NCUA letter of understanding and agreement (LUA) effectively combine the capital of all corporates, including RUDE, PIC and MCS?	Is the cross-guarantee of losses associated with the capital notes permissible? By how much does this cross-guarantee reduce the overall current premium?
8. What impact does providing guaranteed liquidity, in the form of the capital notes or some other account, have on the amount of the premium?	What impact would such liquidity have under the current NCUSIF guarantee?	What impact would such liquidity have under the capital notes alternative?
9. What is the projected cash flow from the corporates' investment portfolios over time and the expected remaining balances at various points in the future?	We would need this information to be able to project the required amounts of liquidity that would be required over time.	We would need this information to be able to project the required amounts of capital notes that would remain outstanding over time.
10. Could the credit unions use CLF funding to purchase the capital notes or other funding accounts and in what total amounts?	Would using the CLF capacity for this type of liquidity adversely affect the current premium?	Would using the CLF capacity for this type of liquidity adversely affect the premium under the capital notes alternative?

Information Needed to Analyze Premium Minimization Alternatives		
Issue	**Current Guarantee**	**Capital Notes**
11. Could corporates cease paying dividends on their PIC and MCS accounts under the NCUA LUA?	What impact does this preservation of capital have on the premium assessment?	Would it be possible to redirect these dividends to help build the CEF? Would doing so have any adverse effect on the premium assessment to credit unions?
12. Could corporates redirect their current net income to help build the CEF?	No impact.	Would it be possible to redirect net income to help build the CEF? Would corporates be subject to minimum reserving requirements under the LUA? Would redirecting net income to the CEF have any adverse effect on the premium assessment to credit unions?
13. Could corporates redirect additional net income resulting from operating expense reductions?	What impact does this increase in net income have on the premium assessment?	Would it be possible to redirect the increase in net income to help build the CEF? Would redirecting net income to the CEF have any adverse effect on the premium assessment to credit unions?
14. What is the NCUA's plan for turning the corporates back over to credit unions after resolving this crisis?	We need this information to estimate a final value for the corporates at the end of the LUA period. How much capital, if any, will credit unions be required to contribute to "purchase" the corporates back from the NCUA?	Would it be possible for the credit unions that hold the notes to be the sole owners of the corporates at the end of the LUA period? Again, we would need to understand the NCUA's intentions for the turnover to be able to estimate the option value to the note holders of owning the corporates.
15. Would the use of the management holding company have any impact on the premium?	Would the use of the management holding company be permissible under the LUA and what is the impact of the management holding company on the premium under the current guarantee?	Would the use of the management holding company be permissible under the LUA and what is the impact of the management holding company under the capital notes alternative guarantee?

In summary, it is important to be able to describe the capital notes and other techniques discussed above in the context of their premium savings. Credit unions must be able to understand the premium impact of each tactic before they can solidify their strategies.

TRANSITIONING TO THE VISION OF THE FUTURE CCN

Overview

This section outlines transition strategies to achieve the future vision for the CCN, as well as issues to consider during the transition. In reading this section, and thinking about moving from today's situation to the credit union vision for the future, it is critical to keep one thought in mind:

> **Credit unions own the CCN and have the right to change it to reduce the overall cost of the CCN crisis and best meet their needs in the future.**

Several other ideas also are important in developing transition plans:

- The credit union vision of the future CCN has the potential to dramatically reduce overall CCN operating expenses. These savings will reduce the cost of the CCN bailout to credit unions by $1 billion or more over the next five years and produce significant ongoing savings thereafter. These savings are independent of the ultimate level of realized losses on CCN investments, so that the transition makes sense regardless of the severity of the current crisis.
- The transition plans must proactively engage credit unions and other industry participants to make the transition salable to credit unions and avoid splintering the industry.
- The NCUA will have to help drive change within the CCN because corporates have not shown the willingness to cooperate in implementing major changes.
- Efforts toward change must begin immediately so that we do not lose the momentum caused by the economic crisis.
- The transition approach must balance the negative consequences of potential NCUA actions versus short- and long-term benefits and cost savings.

Ultimate Goals of the Transition

It is the CCUSP's strong belief that change is necessary – change in management at the institutions that have negative capital measures and change in the structure of the CCN. The CCUSP's ultimate vision for the CCN is as follows:

1) One corporate entity,
   a) to maximize operational efficiency, eliminate the irrational risk taking caused by the CCN's internal competition, and centrally manage the CCN and its risks,
2) Having a liquidity corporate, broker/dealer and liquidity facility,
3) With regional presence to locally serve credit unions of all sizes,
4) Overseen by a board representing all credit unions using input from credit unions of all sizes across the entire U.S.

The CCUSP recognizes that this type of change will require the input and support of the industry and also require interim steps in structure to accomplish the long-term vision. For example, it may not be possible to merge the existing corporates because of their unrealized loss positions and related accounting rules. An interim structure consisting of a handful of corporate charters thus might be necessary on the road to achieving the ultimate goal. Finally, the CCUSP acknowledges that we must ensure that the credit union industry as a whole is behind such an ultimate structure. Thus, the CCUSP advocates an initial study to solidify the vision of the future using the input of a much broader group of credit unions and other industry participants.

Key Steps in the Transition

The transition process should consider the preservation of CCN capital, management of the transition, building consensus on the future state, achieving "quick-hit" wins to begin the transition, and laying the groundwork for the long-term vision. The following are the key steps to include in the transition:

1. Implement administrative actions by NCUA, corporates and other parties.
2. Create a corporate management CUSO holding company structure (corporate management company) to manage the transition and eventually manage all remaining corporates.
3. Form a transition team to lead the various work streams in the transition process.
4. Implement "quick-hit" changes to achieve immediate benefits.
5. Complete a study to reach consensus on credit unions' long-term vision of the CCN.
6. Achieve the final vision of the CCN.

The table below summarizes these steps and the following sections of the report provide additional discussion about each of these areas:

Key Transition Steps	Day 0	Day 30	Day 60	Day 90	6 to 9 Months	2 to 3 Years
Implement administrative actions						
Create corporate management CUSO holding company						
Form team to lead transition process						
Implement "quick-hit" changes for immediate benefits						
Complete CCN future vision analysis and determination						
Achieve the final vision for the CCN						

Implement Key Administrative Actions

Certain administrative actions by NCUA, corporates and others will be required in order to support the transition. The following actions (at a minimum) must be implemented to begin working toward the future vision and minimizing the NCUSIF premium that will be paid by credit unions:

- Enact a centralized management andcommunications structure presiding over all corporates on behalf of the NCUA to effectively manage the transition.
- Eliminate or replace board and management personnel at corporates, if necessary.
- Enact capital cross-guarantees to mutualize capital and minimize the impact on credit unions of write-offs at any single corporate.
- Eliminate corporate competition through pricing standardization.

- Eliminate PIC and MCS dividends.
- Create a natural person credit union advisory board at U.S. Central.
- Implement the ability to facilitate mergers where it makes sense.
- Establish a central risk management function where all corporates are required to fully share portfolio information for centralized management, modeling and industry transparency.

Create a Corporate Management CUSO Holding Company

A key step in the transition will be establishing a corporate management CUSO holding company (corporate management company). This corporate management company will have two primary goals. Its first goal will be to oversee the process of transitioning to the future CCN vision. The second goal of the corporate management company will be to run all of the corporate entities and their related companies beginning at some point in the transition and continuing into the future.

If all of the corporates could be merged into a single legal entity, it would not be necessary to create the corporate management company because all of the corporate business could be run from that consolidated corporate and the CCN would be able to achieve all of the operating expense savings described in this document. However, it is unlikely that we will be able to merge all of the corporates together until their unrealized losses decline at some point in the future. The corporate management company is a vehicle for maintaining all of the management, operational and other support necessary to run all of the corporates in one entity, using management agreements with the remaining corporates to provide support, so that the CCN can achieve significant operating savings. (An alternative to the corporate management company would be to concentrate all of the management, operational and other support resources necessary to run all of the corporates in only one or several corporates, and then use management agreements to support the operations of all the remaining legal entities.)

We recommend that the corporate management company be chartered in such a way to allow maximum flexibility in managing through the situation over time. We suggest that the entity be owned by credit unions and function on a break-even basis. The corporates initially could provide operating capital through fee assessments but the corporate management company ultimately should be owned by credit unions and take its direction from its credit-union owners.

Form a Transition Management Team

In order to implement the transition, a coordinated transition team should be assembled and must carry the backing of the industry (i.e., credit unions, NCUA, trade associations, CUNA Mutual and others). The team must have considerable corporate and wholesale financial services expertise across the areas of ALM, payment/settlement systems, and information technology, while understanding the intricacies and uniqueness of the corporate relationships with credit unions, the NCUA, government agencies and Capitol Hill. The transition team should be overseen by the corporate management company and NCUA, and fulfill the following roles and responsibilities:

- Ensure and manage the operational integrity of the existing CCN.

- Manage CCN capital and liquidity positions.
- Develop and oversee portfolio strategies and risk-management functions.
- Develop visions and action plans for the transition to the future state through credit union participation.
- Coordinate and manage the transition to the future state including consolidation.
- Identify and enact short-term operational savings opportunities.
- Manage and oversee industry participation, education and transparency.
- Engage in legislative and regulatory discussions and policy formation.

Such a team should include a number of functional work streams, with each stream being led by an appropriate project manager drawn from either the existing corporates or outside resources. If led by an existing person at a corporate, the intent would be that the work stream manager would continue to run the particular work stream after the transition process is complete. We recommend that the work streams include at least the following key functional areas:

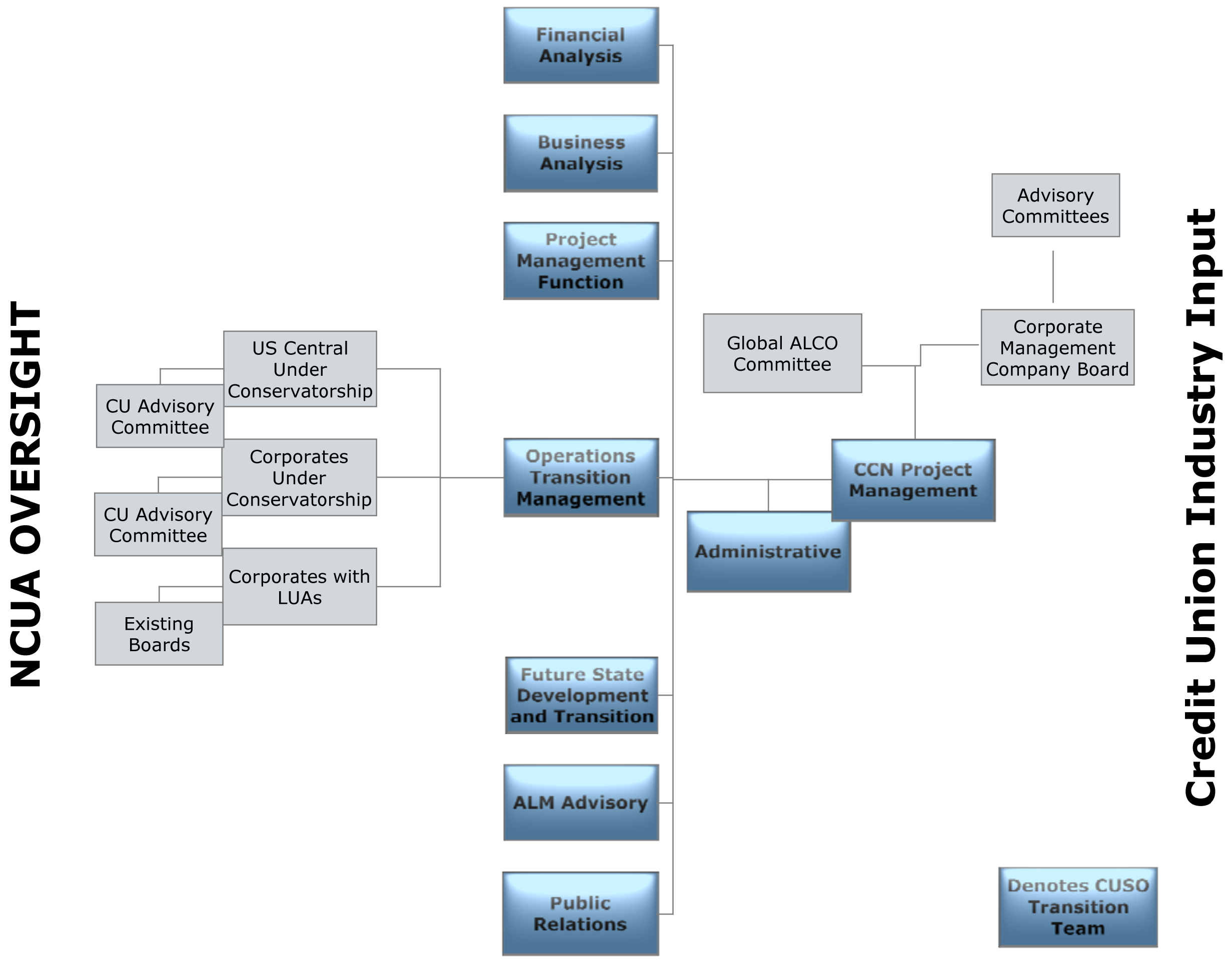
1) Board, ALCO, executive management and internal audit
2) Investment and asset-liability management
3) Finance and accounting
4) Credit analysis
5) Information technology
6) Operations and correspondent services
7) Human resources
8) Member relations
9) Future vision development management
10) Communications and public relations management
11) Legal management
12) Transition project management

The teams under each work stream leader generally should be staffed with existing corporate personnel to maximize resources. However, additional or replacement resources may be necessary through the transition in the event of staff turnover or to acquire needed skill sets. The work stream team leaders could hold weekly meetings, and report to the corporate management company and NCUA during monthly executive steering meetings. An important initial step for each work stream would be to develop an overall plan, considering the interrelationships with the other work streams, to complete the transition process prior to the overall completion date to be set by the corporate management company and NCUA. The work stream leaders should begin preparing these plans immediately and start executing the pieces that can be initiated even before the future vision study is complete. In this way, they could be completing preliminary steps, such as systems and process documentation, and achieving quick-hit benefits from immediate opportunities.

Other central management efforts might include the development of operating guidelines, functional specification requirements, other documentation standards, decision parameters, approval standards, periodic management reporting, and methods to set and track project milestones.

It is important to note that the transition team should have a defined lifecycle of two to three years, with an ultimate goal to transition to permanent self-governance through traditional board elections and management processes. The transition team should be singularly focused on enacting changes as directed by credit unions and the corporate management company.

To ensure a smooth transition, the transition team should be engaged by the NCUA as early in the process as possible to prepare the necessary transition plans collaboratively with NCUA staff. The following chart provides a visual depiction of the central transition team structure and the reporting relationships for managing the CCN through the transition process.



Implement Quick-Hit Opportunities to Reduce the NCUSIF Premium

Some of the administrative actions listed earlier are quick-hit opportunities to preserve corporate capital and minimize the overall NCUSIF premium. Additionally, as soon as possible, the transition team should implement the recommendations described earlier in this report to decrease the NCUSIF premium:

1. Pay down all credit union loans from corporates.
2. Encourage credit unions to maintain liquid balances in the CCN.

3. Eliminate dividends on CCN PIC and MCS.
4. Provide cross-guarantees of all CCN exposures.
5. Create efficiencies to increase earnings in the CCN – The quick-hit portion of this recommendation should include the elimination of non-essential or duplicated capabilities that are not needed to support the transition.
6. Have corporates issue capital notes to credit unions – Again, this idea, and similar ideas to provide long-term liquidity, require additional research before implementation.

Complete the Credit Union Vision Study

For over twenty years, various parties within the credit union movement have debated the appropriate structure of the CCN, with such discussions intensifying after events such as widely-publicized investment losses. For example, various regulatory agencies conducted studies on the role, purpose and structure of the CCN after U.S. Central's impaired investment in Banesto (i.e., the failed Spanish bank), the failure of Capital Corporate FCU (CapCorp), and the near failure of several corporate credit unions during the mid-1990s. Various members of the CCN also have conducted studies on the structure of the CCN, with virtually every study recommending structural change, but few, if any, of the studies have included direct input from independent credit unions. Industry analysis reports issued by Standard & Poor's and Moody's also have indicated that the CCN is not operating optimally.

Credit unions ultimately bear the risk and rewards of corporate activity and should drive the change process. Numerous entities and workgroups have and are currently providing recommendations for significant structural change within the CCN. These efforts cannot fully serve the industry and set it on a path to the future without direct inclusion of all stakeholders of the "3-legged stool," consisting of credit unions, the CCN and NCUA.

It is important that the approach to this analysis is transparent to all parties having a vested interest in the CCN so that we can address the needs of each group and develop appropriate short- and long-term solutions. The best way to validate the future vision for the CCN would be to enter into an analysis involving the input of all constituents. This review would analyze structural, governance, liquidity, capital, earnings retention, risk management and other important issues, and make related recommendations for changes.

While the final number of corporates remains uncertain until a full analysis can be completed, we expect that the number of corporates will be considerably less than the number today. The CCUSP group believes that a single corporate with regional presence would optimize savings and maintain the necessary services and local presence needed to serve credit unions of all sizes.

Implement the Final Vision of the CCN

The final step in the transition process is to execute the transition work stream plans, adjusted to consider the credit union vision of the future of the CCN. The undertaking of a comprehensive structural reformation of the CCN is no small task and will need to be carefully undertaken to minimize project risk while maximizing cost savings with operational changes. A number of considerations are important in completing this work.

Corporate Management Company Governance and Advisory Committees

The continued advancement and success of credit unions is the ultimate and overriding goal of all efforts. Without strong input and broad based credit union participation, any efforts will fall short of optimally serving the industry's needs going forward.

While the transition team officially should report to the corporate management company board of directors with ultimate accountability to the NCUA, it is strongly recommended that direct credit union participation be utilized in advisory roles where applicable. We recommend that the corporate management company solicit volunteers from a diverse set of credit unions in terms of size, region, and corporate usage. For example, its board could consist of 13 volunteers from its member credit unions while its ALCO could consist of seven volunteers, including at least one board member. It should be the role of the board to oversee and manage the corporate transition plan to its desired future state. The ALCO should function as a central risk and portfolio oversight function for all corporate portfolios, ensuring consistency and transparency of the process.

Three advisory groups, each consisting of five members, also could be created to provide input and direction to the corporate management company, transition team and NCUA:

1. Transparency and Education Committee
2. Planning and Integrations Committee
3. Legislative and Regulatory Committee

Finally, given the importance of communication and trust, each corporate's existing board structure could be leveraged to garner input and disseminate consistent information. Given that the existing boards of U.S. Central and Wescorp have been disbanded in the conservatorship, we could create nine-person advisory boards, representing those entities, to participate in the transition process and serve as sounding boards for local and global issues.

Management

As previously discussed, the necessity for a smooth and controlled transition is imperative to solidify and reassure staff and operations, as well as obtain member participation and confidence. This case is even more imperative given the recent actions to conserve U.S. Central and WesCorp. Without a comprehensive plan to address the larger issue and the communication of such plan to the industry, the system is likely to be unduly stressed.

A strongly coordinated management and advisory structure will be necessary to ensure operational continuity and industry input and transparency. It is with this in mind that a centralized management structure is recommended which would report directly to the NCUA.

Given that efforts are geared toward continued operations and the facilitation of transition to a "future state" corporate system, significant thought and planning will be necessary. Efforts to implement the transition will occur over a number of years as existing underwater portfolios mature and consolidation occurs. Although the operational consolidation could be complete in two to three years, the CCN may need to maintain the underwater portfolios within existing charters for a much longer period, until such time as investments mature or rebound in value. A single voice and management structure across the existing CCN will be necessary to transform the corporate initiative from the current to future state. Additionally, consideration for the faith and trust in current management must be thoughtfully weighed in order to facilitate positive change.

Credit Union Communication and Education

Regardless of the scenario for transition, a major weakness in today's structure is the lack of a central and coordinated message on the part of the CCN. Regaining credit union trust, which will provide the foundation for all future initiatives, requires a strong central voice and communications plan. As such, a comprehensive plan that takes into account staff, credit unions, trade associations, vendors, and the financial and governmental communities is vital prior to or as soon as possible after the launch of administrative actions. Broad-based efforts utilizing all mediums of communication will be necessary to effectively reach intended audiences and control the message.

Efforts in this vein initially should begin with comprehensive training and education for credit unions on the corporate issues and the potential consequences of future scenarios. This education should include the need for credit unions to maintain adequate liquidity and capital within the CCN today, and be actively involved in developing the "future vision."

Corporate Oversight and Coordination

The recommended methodology utilizes a corporate management company to oversee and manage corporates in order to ensure centralized decision making, communication, and alignment for the transitional efforts. Work in this area should leverage existing corporate staff and involve corporate CEOs and existing boards. Corporates should be required to work through the corporate management company as a result of conservatorship or existing LUA actions. Corporate efforts should be paired back to the core operations needed to serve existing members and exclude all competitive and research and development efforts.

Immediate actions also should be taken to prepare for consolidation, including a focused and immediate evaluation of staffing for initial quick-hit opportunities. This effort should bring about immediate change, achieve significant savings and then serve to stabilize staffing as no additional cuts should be targeted until the future vision and direction have been clearly articulated. Considerable human resource planning will be necessary to ensure equitable treatment of staff across organizations and that vital staff are encouraged to remain with the CCN through the transition period. Staff considerations ultimately should be driven based upon the needs of the members, but should encompass evaluations where competency, credibility with the industry, and commitment to the changes are reviewed. Every effort should be taken to handle staffing levels through attrition, minimizing the impact to staff through the transition process.

It also will be necessary to quickly set an overall strategy for meeting CCN core data processing needs. Global efforts currently are underway to retire the existing core platform by December 2011. These efforts are significant in both expense and impact. Given the disparate efforts underway, the minimal time available and overall expense of the projects, rapid but thoughtful decisions in this area would be beneficial. An important part of the information technology and other work streams' plans will be to develop a blueprint for the future systems platform of the CCN.

Portfolio Strategies and Oversight

In order to build credibility with credit unions, the CCN must strive to achieve consistency and transparency in reporting. This should be achieved through a centralized risk management process. Utilizing a "global ALCO", the following processes would be established:

1. Development of consistent reporting formats.
2. Utilization of consistent modeling assumptions, software and outside firms by all corporates.
3. Distribution of information globally through reports and teleconferences.
4. Focus on liability structures as well as asset quality.

It is important to note that full consolidation of the corporates might be prevented for quite some time by accounting rules. Thus, the transition should include plans that minimize the necessity to realize losses while still beginning the immediate centralization of ALM risk management and operations.

Charting the Transition and Consolidation

In order to effectively manage the efforts of the transition team, central project management and risk assessment functions must be used. A formal project management function should be established to ensure coordination and monitor progress across the various entities involved. The overall transition should be managed through a global project plan that consists of subordinate plans covering each of the individual work streams at each corporate location. Additionally, a disciplined risk assessment framework should be enacted to alert the group to potential risks and continuously evaluate the changing landscape for redirection and/or initiation of risk mitigation activities.

It is imperative that the transition and consolidation efforts begin immediately. The group should quickly undertake a comprehensive mapping of the CCN's infrastructure in order to chart a course that maximizes value while mitigating operational and project risks. A critical foundation should be the development of comprehensive and systematic documentation of the existing business and technology environments, from key processes and work flows to software systems and vendors. This basis would serve as a foundation on which knowledge-based action plans could be based. Armed with this information, project leaders could effectively evaluate transition and consolidation options and make appropriate risk-based decisions.

Guarding Against Undesirable Consequences

Any administrative action should be evaluated against the risk of exacerbating the situation and implemented in a manner designed to minimize undesirable consequences. Although the NCUA has the ability and right to enact regulatory action without warning, we recommend that every effort be made to engage credit union participants prior to any major action. Pre-established communication and operational action plans should be established to encourage the general buy-in of credit unions. Given the high stakes, immediate steps should be taken whenever necessary to reassure credit unions about the results of administrative actions. Efforts should be made to include industry trade groups, the CCUSP credit union group, and other credit union industry members such as CUNA Mutual. Acting in a transparent and collaborative manner will be important in maintaining the ongoing support of the industry.

To minimize the risk associated with undesirable consequences, a risk assessment methodology should be enacted to account for and mitigate potential risks. Significant risk categories include the following:

- Lack of planning by and coordination with key industry players.
- Ineffectiveness of communications and public relations plans:
  - CCN staff
  - Credit unions
  - Financial market participants (e.g., rating agencies)
  - Congress, Treasury, FRB, FHLB, etc.
  - The news media
- Inability to control and effectively manage corporates.
- Instability of CCN capital and liquidity.
- Inadequacy of CCN operational integrity and contingency planning.
- Inability to reach credit union consensus on a future vision for the CCN.
- Negative credit union participation and reactions.
- Degradation of financial markets and economy.

MODELING OF THE CCN INVESTMENT PORTFOLIO

Introduction

The NCUA has engaged PIMCO, which is a respected, global leader in investment management, to conduct a thorough analysis of the CCN investments. Such an analysis requires the consideration of many factors, and we are certain that PIMCO will offer solid suggestions on this analysis. Unfortunately, our discussions with the NCUA have revealed that the NCUA will not provide detailed information on the CCN's investment portfolio to support an independent modeling of that portfolio by the CCUSP. Thus, our work in this are has focused on providing input to the NCUA on ideas that the NCUA and PIMCO should consider in their analysis of the CCN investments. Also, we have requested that the NCUA provide as much information as possible to the CCUSP at the conclusion of PIMCO's modeling, so that the CCUSP can use the projected cash flows and related assumptions in formulating workout strategies, alternative business cases, and a strong response to the NCUA ANPR on Regulation 704.

Suggestions for NCUA and PIMCO Modeling

In the case of the analysis of MBS, we anticipate that PIMCO's analysis will consider alternative credit shocks, interest rate scenarios, default and recovery rates, prepayment speeds and volatilities. The base case scenario will be drawn from the current yield curve and implied volatilities of interest rates. In addition, we would recommend up and down interest rate scenarios, to consider immediate shifts in prevailing rates. Of course, there is little room for interest rates to decrease but some room for rate increases. Given the Federal Reserve's actions to keep interest rates relatively low to spur economic recovery, it is unlikely we will see significant rate increases in the near future but we could experience increases as the economy recovers in a year or two, particularly if the Federal Reserve then acts to thwart inflationary pressures.

The prevailing default, recovery and prepayment rates also could have major impacts on the valuation of the CCN's investments in MBS. Related to these factors, we would suggest that PIMCO consider the following parameters in its credit shock analysis:

1. Seasoning of the underlying mortgages including the related impact on refinancing burnout and likelihood of default.
2. Geographic distributions of the mortgages.
3. Relative economic vitality of the property locations.
4. Unemployment rates of the locations.
5. Loan-to-value ratios for the original mortgages.
6. Changes in home prices in the relevant regions and the impact that those changes would have on the ability of homeowners to refinance as well as their fortitude to stay with their homes and persevere against default.
7. Default and foreclosure rates in the relevant locations.
8. Recovery rates on loans in default.
9. Credit enhancements and the financial ratings of the entities providing the enhancements.
10. Potential political changes that impact refinancing, loan modification, and bankruptcy.

It is unlikely that PIMCO's models can consider all of these parameters directly, and some of the parameters are directional rather than absolute in nature. Thus, an intermediate step would be to estimate how each parameter impacts each factor that PIMCO can vary in its models, and then design alternative scenarios for changes in the independent factors. For example, if PIMCO's model allows users to directly alter unemployment, foreclosure, recovery and loan-to-value rates, it might be possible to consider the impacts of the parameters shown above in a matrix of the four independent factors:

Scenario	*Unemployment*	*Foreclosures*	*Recoveries*	*LTVs*
Best Case	5%	-33%	+10%	-10%
Base Case	7.5%	Unchanged	Unchanged	Unchanged
Unfavorable Case	10%	+15%	-10%	+10%
Worst Case	12%	+33%	-20%	+20%

The CCN also holds substantial balances of other types of ABS, including those secured by credit card receivables, auto loans, student loans, and commercial mortgages. The analysis of these securities might consider yield curve shifts, spread changes, volatility changes, and several additional factors:

1. Credit card ABS – Geographic concentrations, credit enhancements and FICOs.
2. Auto loan ABS – Same factors as credit card ABS.
3. Student loan ABS – Levels of government and other guarantees as well as FICOs.
4. Commercial MBS – Geographic concentrations, type of collateral, and the general economic conditions of the various regions of concentration.
5. U.S. government, agency and corporate bonds – Ratings changes.
6. Derivatives – The CCN's derivatives are closely linked with securities and often have values that change inversely with those of the related securities.

At the conclusion of the modeling, the analysis should show a range of outcomes, with the most likely scenario representing the base case. Having the alternative scenarios would give all parties better visibility on the assumptions in modeling and the effects that the various scenarios have on the results. This would be useful to the NCUA in evaluating the NCUSIF premium assessment, understanding the expected ranges of performance of the corporate investments, and considering responses to the ANPR. The credit unions that are part of the CCUSP have offered to assist the NCUA in any way possible in completing this analysis. For example, we would be available to discuss our ideas on valuation or other issues with the NCUA and PIMCO before the analysis is complete or at the conclusion of the work.

Request for Information on the Results of the Modeling

Additionally, credit unions are the owners of the corporates and share in the responsibility for losses generated by the corporates. In this role, the credit unions in the CCUSP desire visibility to the investments that have produced that risk. As a result of the NCUSIF premium assessment, the members of the CCUSP bear a significant portion of that risk because of their large combined total assets. Credit unions are beginning to develop their responses to the NCUA ANPR.

Portions of the ANPR deal with the role of corporates, capital, investments, credit management and overall asset-liability management. We believe that developing appropriate responses to some of these questions requires an understanding of the underlying investments and their cash-flow projections for the coming months and years. Moreover, we would benefit from understanding the assumptions that PIMCO uses in the various modeling scenarios, and believe that this information would be helpful in developing our suggestions related to the ANPR. Thus, we request that the NCUA share as much of the investment modeling results and related modeling assumptions as possible with the CCUSP so that we can develop the strongest comment letter possible on the ANPR and best represent the long-term interests of our credit unions.

RESPONSE TO THE NCUA ANPR

The CCUSP response to the ANPR is included in Appendix 5 of this report.

LIST OF CCUSP DOCUMENTS

The CCUSP has issued a number of documents over the last several months and presented the results of its work to a large group of credit unions, corporates, other industry participants and the NCUA. The following is a list of the key documents and presentations developed by the CCUSP team during this period:

- Dec-08 Initial discussion with NCUA board and senior staff
- Jan-09 Detailed paper on four key strategies to address CCN challenges
- Jan-09 Presentation on paper to NCUA
- Jan-09 Presentation of ideas to ACCU
- Jan-09 Paper on liquidity suggestions
- Jan-09 Paper on vision for the CCN
- Jan-09 Presentation to CUNA Corporate Task Force
- Feb-09 Paper for CUNA on dealing with the CCN situation
- Feb-09 Impact of USC OTTI and unrealized losses on corporate capital
- Feb-09 Suggestions to NCUA on investment modeling
- Feb-09 Presentation to credit unions and corporates at GAC
- Feb-09 Follow-up presentation to NCUA
- Mar-09 Presentation at Dallas working session of CCUSP participants
- Mar-09 Final recommendations report issued to CCUSP
- Mar-09 ANPR response issued to NCUA

SUBSEQUENT EVENTS

Proposed FASB Changes

On March 17, 2009, the FASB released two proposed staff position papers that address the reporting of fair market values. One of these provides additional guidance on determining the market value of investments in inactive markets. This guidance may allow companies to use methods other than market prices to value investments in some circumstances, and it is possible that this will reduce the unrealized losses that corporates report for future periods. The other proposed change will allow companies to report only the credit deterioration portions of security impairments in income, while reporting other portions of unrealized losses in other comprehensive income, if it is likely that they will be able to hold the securities until recovery. This change will reduce the OTTI charges that corporates will need to make going forward, and may allow them to recover the market-loss components of OTTI charges that they have recorded in the past. However, these proposals should not impact the NCUSIF premium assessment or change the basic fact that the CCN has unrealized investment losses that are a multiple of total capital.

Conservatorship of U.S. Central and Wescorp

On March 20, 2009, the NCUA announced that it had placed U.S. Central and Wescorp into conservatorship to “stabilize the corporate credit union system and resolve balance sheet issues.” The NCUA described that it made these moves to protect credit union deposits and remove any impediments to take the actions necessary to minimize overall losses.

The NCUA also explained that the NCUSIF premium had increased from a total of $4.7 billion, including the $1 billion deposit at U.S. Central, to a total of $5.9 billion. NCUA staff explained in a Webcast on March 23 that about $5 billion of the $5.9 billion total relates to NCUSIF loss exposure at U.S. Central and Wescorp.

As a result, the NCUA said that other corporates would need to write their holdings of U.S. Central PIC and MCS down to zero, and that the credit union members of Wescorp would need to write their holdings of Wescorp PIC and MCS down to zero. Credit unions that are members of the other corporates also will need to write down their holdings of PIC and MCS at those corporates to the extent that the capital of those corporates also is impaired, either directly through their own losses or indirectly as the result of losses at U.S. Central.

To analyze the impact of the write-offs of U.S. Central and Wescorp PIC and MCS, we updated the OTTI analysis found in Appendix 4. The revised version of the analysis is contained in Appendix 6. The analysis in Appendix 6 shows the retained earnings, capital and NEV ratios of the corporates as of December 2008 as well as adjusted ratios considering the write-offs of each corporate’s PIC and MCS at U.S. Central. In the case of Wescorp, the analysis first assumes that Wescorp’s retained earnings, PIC and MCS are reduced to zero, and then assumes Wescorp’s investments in U.S. Central MCS are written off. (Wescorp holds no U.S. Central PIC.) Note that it is likely that Wescorp’s write-offs of its own investments will push its capital well below zero even before considering the write-off of U.S. Central MCS. However, the NCUSIF guarantee will protect credit unions from having to immediately recognize the negative portions of the corporates' capital, but they essentially will pay for those negative portions as they recognize their liabilities for the NCUSIF premium assessments due in September.

Putting U.S. Central and Wescorp into conservatorship does not have a major impact on transition planning. The CCUSP continues to support the recommendations described earlier in this report and believes that conservatorship does not decrease the importance of achieving the long-term vision of credit unions for the CCN.

Appendix 1

Financial Risk Policy Concepts for Liquidity Corporate

Financial Risk Policy Concepts for Liquidity Corporate

This exhibit summarizes some of the main issues to address in financial risk policy for a liquidity corporate. They are intended for review and discussion but do not represent a complete financial risk management policy.

1) **Investments**
   a) ***Credit ratings requirements should require high quality issuers.***
      i) U.S. government and agency securities including MBS.
      ii) AAA rates ABS with appropriate limits.
      iii) A1/P1 rated commercial paper.
      iv) Fed funds sold or certificates of deposit from approved parties.
      v) Reverse repurchase agreements from approved parties:
         (1) The collateral received must be an eligible investment, maintained at a third-party custodian, and be adjusted daily so that its market value is at least 102 percent of the amount of the reverse repurchase agreement plus accrued interest.
      vi) Actions required upon credit downgrades:
         (1) Securities will be placed on watch if ratings drop below A+ or A2/P2.
         (2) Securities will be sold if the rating reaches BBB+.
   b) ***Maturity limits should focus the corporate on remaining liquid.***
      i) Investments with remaining maturities of five years or more are prohibited except for securities with put options and MBS.
      ii) Weighted average lives for MBS and ABS may not exceed three years for fixed-rate securities and five years for variable-rate securities.
      iii) Put options on securities must be exercisable within two years.
      iv) Final maturities for MBS may not exceed 30 years with approximately half in shorter maturities (5 to15 years) and half in longer maturities (20 to 30 years).
   c) ***Concentration limits should force the corporate to avoid situations where an exposure to a single issuer or class of security could cause devastating losses.***
      i) The total exposure to a counterparty is limited to some reasonable portion of capital.
   d) ***Accounting classifications should force the corporate to recognize losses against capital or income to avoid shielding losses in a held-to-maturity classification.***
      i) Investments are classified as available-for-sale or trading.
   e) ***Interest rate swaps should support the corporate's products but not arbitrage, while introducing only moderate credit and liquidity risk.***
      i) Interest rate swaps with A+ or better counterparties may be used to alter the effective duration of certain, identified investments.
      ii) The liquidity corporate only will use interest rate swaps for hedging and not speculative purposes, such as for swapping a fixed rate into a floating rate, or vice versa, or changing the basis of a floating rate instrument.
      iii) The aggregate notional limit of swaps will be set considering the credit quality of swap counterparties and the liquidity risk introduced through the combined use of swaps with the hedged investments.

2) **Borrowing**
   a) ***Borrowing should be allowed for liquidity but not arbitrage or speculative purposes.***
      i) Borrowing may be in the form of commercial paper or medium-term note issuances, advances from the Federal Reserve Bank and Federal Home Loan Bank, borrowings through credit facilities with commercial banks, reverse repurchase agreements, and other sources.
      ii) The corporate may borrow in an amount up to its regulatory limit.
3) **Lending**
   a) ***Lending to members, after prudent analysis, should be a key objective of the liquidity corporate during times of tight systemic liquidity and to meet normal cyclical needs.***
      i) An advance only will be made after analyzing the financial and operational soundness of the borrower and its ability to repay the loan.
      ii) Loans may have terms ranging from one day to one year.
   b) ***Loan limits should force the corporate to avoid concentrations that could cause devastating losses.***
      i) The corporate may extend loans to a credit union or other corporate in an amount up to its regulatory limits.
      ii) A key factor in limiting loans to any single credit union or corporate will be ensuring that the net economic value of the credit union is sufficient to cover the amount of the loan, given the credit union's other liabilities that have creditor priority over shares.
      iii) Loans to non-credit unions must be limited to a small overall portion of capital.
4) **Liquidity**
   a) ***Liquidity measures should force the corporate to have considerable flexibility in meeting member needs while avoiding asset sales at below book value prices.***
      i) Generally, it will accomplish this objective by maintaining only a modest term structure mismatch between assets and liabilities, avoiding long-term fixed rate securities without appropriate hedging instruments, and investing in highly rated securities traded by a large volume of investors.
      ii) The corporate will set duration asset-liability mismatch and other limits to maintain liquidity risk at a manageable level.
5) **Net Economic Value**
   a) ***Value and other interest rate risk measures should force the corporate to maintain positions that cause its value to fluctuate in a fairly narrow range.***
      i) The corporate will set NEV, value at risk, net interest income and other limitations to help manage its interest rate, credit, spread and other risks to levels commensurate with its role as a provider of liquidity and operational services.

6) **Asset Allocations**
   a) The corporate should limit its investments to instruments and exposures appropriate for its purpose.

Instrument	**Limit**
U.S. Treasury Securities	No limit
Federal Agency Notes and Bonds	No limit (All GSE's including GNMA, FNMA & FHLMC)
Insured CDs	No limit
Uninsured CDs	10% of the aggregate portfolio
Fed Funds	20% of the aggregate portfolio
Reverse Repurchase Agreements	10% of the aggregate portfolio; all less than 90 days to maturity
Federal Agency MBS	70% of the aggregate portfolio
ABS	10% of the aggregate portfolio
Loans to Credit Unions	25% of the aggregate portfolio unless member credit unions require greater amounts
Commercial Paper	10% of the aggregate portfolio

Appendix 2

Analysis of CCN Current and Potential Operating Expenses

Analysis of CCN Current and Potential Operating Expenses

The following pages of this appendix contain analyses of the CCN's current operating expenses, as well as the expenses the CCN might incur if it were to substantially consolidate its operations. The appendix contains two sections, which analyze the potential expense reductions under two scenarios: the four corporates expense model and one corporate expense model.

In the four corporates expense model, we estimated the operating expenses and related staffing needs starting with a base of the current total operating expenses at Wescorp, Members United and two times Southwest Corporate. We then analyzed each major category of expense to determine the additional expenses such a system of four corporates might incur in providing services to credit unions across the U.S. As described in detail in the assumptions column, we increased many of the major expense line items in proportion to the additional FTEs we estimated would be required for the "corporate" to serve the entire U.S. Our estimation of these additional employees was based on the number of marketing and operations people required, in addition to those already at the four corporates, to provide support to the remainder of the country. We assumed that many ongoing fees, such as league dues, would remain unchanged. Depreciation charges were assumed to continue unchanged, but we assumed that other occupancy expenses not already present in the four corporates would decrease by 75 percent.

The one corporate expense model used similar assumptions but used Wescorp's operating expenses as its base. From that base, we again added many expenses in proportion to the additional staff that would be required over Wescorp's current staff. Additionally, we added a flat $3 million amount to cover other miscellaneous items.

The following table summarizes the operating expenses in the current CCN compared to the estimated expenses in the four and one corporate scenarios:

Major Expense Category	Current CCN Expense Model	Four Corporate Expense Model	One Corporate Expense Model
Personnel	$ 214,275,892	$ 133,338,212	$ 62,219,047
Training, Travel and Communications	32,318,621	21,718,501	12,222,278
Fees	70,136,060	31,593,755	26,045,765
Furniture and Equipment	36,033,331	29,866,330	24,568,920
Occupancy	20,523,694	15,458,511	10,279,845
Provision for Loan Loss	186,828	186,828	186,828
All Other Expenses	57,161,584	22,522,183	10,338,647
Total Non-Interest Expense	$ 430,636,010	$ 254,684,320	$ 145,861,330
Potential Expense Reduction	N/A	$ 175,951,690	$ 284,774,681

Analysis of Corporate Credit Union Network Current and Potential Operating Expenses

Assumes Four Large Corporates (WC, MU & SW x 2) with Additional FTEs at 22 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than 4 Corps	1,238
Total FTEs at the 4 Corps	981
Estimated additional FTEs needed in excess of WC, MU & SW staff	104

SCHEDULE IS-5 : OPERATING EXPENSES

						Estimated Expenses of Combined Corporates			
		Personnel	Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Wescorp, Members United & Southwest x 2 Extrapolated thru Dec-08 YTD	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to 4 Corps Expenses	Assumptions
1.	a.	Salaries	$ 164,308,974	$ 22,392,698	$ 141,916,276	$ 100,995,628			
	b.	Employee Benefits	47,415,923	$ 3,744,368	43,671,555	27,535,946			
	c.	Other	2,550,995	$ 2,412,878	138,117	-			
		SUBTOTAL	**214,275,892**	**28,549,944**	**185,725,948**	**128,531,574**	-	**4,806,638**	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs
		Training, Travel, and Communications							
2.	a.	Travel and Conference	11,680,163	$ 1,878,169	9,801,994	6,382,088		1,709,953	Assumes 2008 T&E for remaining 22 Corps divided by 2
	b.	Education and Promotion	11,705,140	$ 750,569	10,954,570	8,107,175		239,296	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs
	c.	Telephone	5,802,476	$ 469,808	5,332,668	3,961,997		137,067	Assumes 10% 2008 exp.
	d.	Postage	1,505,896	$ 51,555	1,454,340	1,145,305		30,904	Assumes 10% 2008 exp.
	e.	Other	1,624,947	$ -	1,624,947	4,716		-	Assumes zero; 85% is in Eascorp & Georgia alone.
		SUBTOTAL	**32,318,621**	**3,150,101**	**29,168,519**	**19,601,281**	-	**2,117,220**	
		Fees							
3.	a.	League Dues	684,269	$ -	684,269	94,992		589,277	$ remains equal to 2008
	b.	League Support Payments	645,436	$ -	645,436	252,269		393,167	$ remains equal to 2008
	c.	Professional and Outside Services	46,927,027	$ 19,272,348	27,654,679	15,330,657		3,107,148	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs * 3 as marketing will need to continue as usual & some local legal & accounting will likely be needed
	d.	Federal/State Operating Fee	1,798,596	$ -	1,798,596	1,020,841		777,755	$ remains equal to 2008
	e.	Investment Advisory Fees	1,863,757	$ -	1,863,757	1,113,054		375,351	50% of 2008
	f.	Other	18,216,976	$ -	18,216,976	7,651,301		887,944	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs
		SUBTOTAL	**70,136,060**	**19,272,348**	**50,863,712**	**25,463,114**	-	**6,130,641**	
		Furniture and Equipment							
4.	a.	Leased Data Processing Equipment	1,084,710	$ -	1,084,710	-		-	Assumes no DP equipment is leased

Analysis of Corporate Credit Union Network Current and Potential Operating Expenses

Assumes Four Large Corporates (WC, MU & SW x 2) with Additional FTEs at 22 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than 4 Corps	1,238
Total FTEs at the 4 Corps	981
Estimated additional FTEs needed in excess of WC, MU & SW staff	104

SCHEDULE IS-5 : OPERATING EXPENSES

						Estimated Expenses of Combined Corporates			
		Personnel	Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Wescorp, Members United & Southwest x 2 Extrapolated thru Dec-08 YTD	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to 4 Corps Expenses	Assumptions
	b.	Leased Furniture and Equipment	440,011	$ 96,577	343,434	316,402		-	Assumes no F&E is leased
	c.	Maintenance of Furniture and Equipment	13,424,810	$ 100,396	13,324,414	8,636,858		393,944	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs
	d.	Depreciation of Data Processing Equipment	14,690,865	$ 1,444,959	13,245,906	9,124,066	1,444,959	4,121,840	Remaining depreciation either must continue to depreciate or be written off.
	e.	Depreciation of Furniture and Equipment	4,345,631	$ 326,752	4,018,879	1,672,453	326,752	2,346,426	Same as DP equipment
	f.	Other	2,047,303	$ -	2,047,303	1,430,820		51,809	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs
		SUBTOTAL	**36,033,331**	**1,968,685**	**34,064,646**	**21,180,599**	**1,771,712**	**6,914,019**	
		Occupancy							
5.	a.	Office Lease Costs	7,314,607	$ 155,504	7,159,104	4,295,355	38,876	715,937	75% reduction in non-4 Corps occupancy expenses
	b.	Utilities	2,552,195	$ 283,228	2,268,966	1,537,991	70,807	182,744	75% reduction in non-4 Corps occupancy expenses
	c.	Hazard Insurance	1,324,159	$ 10,109	1,314,050	760,838	2,527	138,303	75% reduction in non-4 Corps occupancy expenses
	d.	Building Maintenance	2,393,656	$ 390,916	2,002,740	1,297,900	97,729	176,210	75% reduction in non-4 Corps occupancy expenses
	e.	Real Estate Taxes	1,671,791	$ 360,000	1,311,791	1,043,936	90,000	267,854	75% reduction in non-4 Corps occupancy expenses
	f.	Building Depreciation	2,957,890	$ 490,452	2,467,438	2,054,377	490,452	413,061	All bldg. depreciation for remaining 25 satellite Corporates
	g.	Leasehold Improvements Depreciation	750,665	$ 4,308	746,357	686,850	4,308	59,506	All bldg. depreciation for remaining 25 satellite Corporates
	h.	Other	1,558,731	$ -	1,558,731	857,687	-	175,261	75% reduction in non-4 Corps occupancy expenses
		SUBTOTAL	**20,523,694**	**1,694,518**	**18,829,176**	**12,534,935**	**794,699**	**2,128,877**	
6.		***Provision for Loan Loss***	186,828	$ -	186,828	186,828	-	-	
7.		***All Other Expenses***	57,161,584	$ 6,279,566	50,882,018	21,074,581	-	1,447,602	Equals (Non-USC minus 4 Corps exp) * additional FTEs/Total FTEs

Analysis of Corporate Credit Union Network Current and Potential Operating Expenses

Assumes Four Large Corporates (WC, MU & SW x 2) with Additional FTEs at 22 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than 4 Corps	1,238
Total FTEs at the 4 Corps	981
Estimated additional FTEs needed in excess of WC, MU & SW staff	104

SCHEDULE IS-5 : OPERATING EXPENSES

				Estimated Expenses of Combined Corporates			
Personnel	Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Wescorp, Members United & Southwest x 2 Extrapolated thru Dec-08 YTD	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to 4 Corps Expenses	Assumptions
TOTAL OPERATING EXPENSES	**$ 430,636,010**	**$ 60,915,163**	**$ 369,720,848**	**$ 228,572,912**	**2,566,411**	**23,544,997**	
Total FTEs				1,238			
Total PTEs						-	
				Total Est CCN Expense		**254,684,320**	
				Total 2008 CCN Expense		**430,636,010**	
				Cost Savings		**175,951,690**	

Analysis of Corporate Credit Union Network Operating Expenses

Assumes One Massive Corporate (Wescorp) with Additional FTEs at 25 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than Wescorp	1,470
Total FTEs at Wescorp	417
Estimated additional FTEs needed in excess of Wescorp staff	160

SCHEDULE IS-5 : OPERATING EXPENSES

						Estimated Expenses of Combined Corporates				
		Personnel	Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Wescorp Extrapolated thru Dec-08 YTD	$3mm Additional Wescorp Operating Expenses (in All Other Expenses category)	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to Wescorp Expenses	Assumptions
1.	a.	Salaries	$ 164,308,974	$ 22,392,698	$ 141,916,276	$ 34,862,399				
	b.	Employee Benefits	47,415,923	$ 3,744,368	43,671,555	$ 12,271,835				
	c.	Other	2,550,995	$ 2,412,878	138,117	$ -				
		SUBTOTAL	**214,275,892**	**28,549,944**	**185,725,948**	**47,134,234**	**-**	**-**	**15,084,812**	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs
		Training, Travel, and Communications								
2.	a.	Travel and Conference	11,680,163	$ 1,878,169	9,801,994	1,497,529	-	-	4,152,233	Assumes 50% of 2008 expense
	b.	Education and Promotion	11,705,140	$ 750,569	10,954,570	3,396,169	-	-	822,683	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs (assumes this line is mainly education, not advertising)
	c.	Telephone	5,802,476	$ 469,808	5,332,668	1,585,743	-	-	374,693	Assumes 10% 2008 exp.
	d.	Postage	1,505,896	$ 51,555	1,454,340	275,328	-	-	117,901	Assumes 10% 2008 exp.
	e.	Other	1,624,947	$ -	1,624,947	-	-	-	-	Assumes zero; 85% is in Eascorp & Georgia alone.
		SUBTOTAL	**32,318,621**	**3,150,101**	**29,168,519**	**6,754,768**	**-**	**-**	**5,467,509**	
		Fees								
3.	a.	League Dues	684,269	$ -	684,269	-	-	-	684,269	$ remains equal to 2008
	b.	League Support Payments	645,436	$ -	645,436	252,269	-	-	393,167	$ remains equal to 2008
	c.	Professional and Outside Services	46,927,027	$ 19,272,348	27,654,679	5,341,969	-	-	7,285,783	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs * 3 as marketing will need to continue as usual & some local legal & accounting will likely be needed
	d.	Federal/State Operating Fee	1,798,596	$ -	1,798,596	421,092	-	-	1,377,504	$ remains equal to 2008
	e.	Investment Advisory Fees	1,863,757	$ -	1,863,757	1,113,054	-	-	375,351	50% of 2008
	f.	Other	18,216,976	$ -	18,216,976	7,651,301	-	-	1,150,005	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs
		SUBTOTAL	**70,136,060**	**19,272,348**	**50,863,712**	**14,779,685**	**-**	**-**	**11,266,080**	

Analysis of Corporate Credit Union Network Operating Expenses

Assumes One Massive Corporate (Wescorp) with Additional FTEs at 25 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than Wescorp	1,470
Total FTEs at Wescorp	417
Estimated additional FTEs needed in excess of Wescorp staff	160

SCHEDULE IS-5 : OPERATING EXPENSES

			Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Estimated Expenses of Combined Corporates: Wescorp Extrapolated thru Dec-08 YTD	$3mm Additional Wescorp Operating Expenses (in All Other Expenses category)	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to Wescorp Expenses	Assumptions
		Personnel								
		Furniture and Equipment								
4.	a.	Leased Data Processing Equipment	1,084,710	$ -	1,084,710	-	-	-	-	Assumes no DP equipment is leased
	b.	Leased Furniture and Equipment	440,011	$ 96,577	343,434	191,163	-	-	-	Assumes no F&E is leased
	c.	Maintenance of Furniture and Equipment	13,424,810	$ 100,396	13,324,414	3,309,860	-	-	1,090,019	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs
	d.	Depreciation of Data Processing Equipment	14,690,865	$ 1,444,959	13,245,906	4,308,716	-	1,444,959	8,937,190	Continue to incur all Non-USC depreciation
	e.	Depreciation of Furniture and Equipment	4,345,631	$ 326,752	4,018,879	361,734	-	326,752	3,657,145	Continue to incur all Non-USC depreciation
	f.	Other	2,047,303	$ -	2,047,303	806,307	-	-	135,074	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs
		SUBTOTAL	**36,033,331**	**1,968,685**	**34,064,646**	**8,977,780**	**-**	**1,771,712**	**13,819,429**	
		Occupancy								
5.	a.	Office Lease Costs	7,314,607	$ 155,504	7,159,104	840,274	-	38,876	1,579,707	75% reduction in non-Wescorp occupancy expenses
	b.	Utilities	2,552,195	$ 283,228	2,268,966	663,139	-	70,807	401,457	75% reduction in non-Wescorp occupancy expenses
	c.	Hazard Insurance	1,324,159	$ 10,109	1,314,050	629,684	-	2,527	171,091	75% reduction in non-Wescorp occupancy expenses
	d.	Building Maintenance	2,393,656	$ 390,916	2,002,740	639,157	-	97,729	340,896	75% reduction in non-Wescorp occupancy expenses
	e.	Real Estate Taxes	1,671,791	$ 360,000	1,311,791	296,528	-	90,000	253,816	75% reduction in non-Wescorp occupancy expenses
	f.	Building Depreciation	2,957,890	$ 490,452	2,467,438	1,007,045	-	490,452	1,460,393	All bldg. depreciation for remaining 25 satellite Corporates

Analysis of Corporate Credit Union Network Operating Expenses

Assumes One Massive Corporate (Wescorp) with Additional FTEs at 25 Remaining Corporate Satellites

All Data is From NCUA November 2008 YTD 5310 Reports (Extrapolated for 12 Months)

Total FTEs (2 PTE=1 FTE) at corporates other than Wescorp	1,470
Total FTEs at Wescorp	417
Estimated additional FTEs needed in excess of Wescorp staff	160

SCHEDULE IS-5 : OPERATING EXPENSES

						Estimated Expenses of Combined Corporates				
		Personnel	Combined Totals Extrapolated thru Dec-08 YTD	USC Totals Extrapolated thru Dec-08 YTD	Non-USC Totals Extrapolated thru Dec-08 YTD	Wescorp Extrapolated thru Dec-08 YTD	$3mm Additional Wescorp Operating Expenses (in All Other Expenses category)	U.S. Central Totals Extrapolated thru Dec-08 YTD Assumed to Continue (Occupancy Expenses)	Operating Expenses in Addition to Wescorp Expenses	Assumptions
	g.	Leasehold Improvements Depreciation	750,665	$ 4,308	746,357	72,606	-	4,308	673,751	All leasehold depreciation for remaining 25 satellite Corporates
	h.	Other	1,558,731	$ -	1,558,731	87,892	-	-	367,710	75% reduction in non-Wescorp occupancy expenses
		SUBTOTAL	**20,523,694**	**1,694,518**	**18,829,176**	**4,236,325**	**-**	**794,699**	**5,248,821**	
6.		***Provision for Loan Loss***	186,828	$ -	186,828	-	-	-	186,828	Assumes no change
7.		***All Other Expenses***	57,161,584	$ 6,279,566	50,882,018	2,020,373	3,000,000	-	5,318,274	Equals (Non-USC minus Wescorp exp) * additional FTEs/Total FTEs
		TOTAL OPERATING EXPENSES	**$ 430,636,010**	**$ 60,915,163**	**$ 369,720,848**	**$ 83,903,165**	**$ 3,000,000**	**$ 2,566,411**	**$ 56,391,754**	
		Total FTEs								
		Total PTEs								
						Total Est CCN Expense			**145,861,330**	
						Total 2008 CCN Expense			**430,636,010**	
						Cost Savings			**284,774,681**	

Appendix 3

Potential Financial Results for a Liquidity Corporate

Potential Financial Results for a Liquidity Corporate

This appendix contains analyses showing the potential financial results for a liquidity corporate under a variety of expense and market-share scenarios. The appendix has sections for three expense scenarios:

- Current CCN expense model – This section shows financial results for a liquidity corporate having operating expenses equal to those of the current CCN.
- Four corporates expense model – This section shows financial results for a liquidity corporate having expenses equal to those of the four corporates expense model shown in Appendix 2.
- One corporate expense model – This section shows financials for a liquidity corporate having expenses equal to those of the one corporate expense model shown in Appendix 2.

In each case, we assume that the liquidity corporate achieves fee income equal to that of the current CCN.

Under each of the operating expense scenarios, we show market-share scenarios of 125 percent, 100 percent, 75 percent, 50 percent and 25 percent. The 100 percent scenario shows asset and liability levels based on the amount of less than 90-day balances that was held by the CCN in December 2008, adjusted for seasonal effects. As of the end of December 2008, the CCN held $29.3 billion in credit union deposits with less than 90-day terms. Because the overall share balances in the CCN in December were only 69 percent of the 2008 average, we divided the $29.3 billion figure by 0.69 to arrive at a seasonally adjusted estimate of the annual average less than 90-day balances that credit unions hold at the CCN.

We then used the parameters of the financial risk policy concepts in Appendix 1 to set reasonable asset distributions for a liquidity corporate, and used average investment rates on the various asset types for 2004 through 2008 to estimate the interest income and expense the liquidity corporate might generate in each of the market-share scenarios. The analyses show annual results based on the rates for each of the five years, as well as annual results based on the average of the rates over the five-year period. The following table summarizes the potential annual results from our various scenarios for the liquidity corporate:

Net Income by Scenario (millions)	Current CCN Expense Model	Four Corporate Expense Model	One Corporate Expense Model
125 percent market share	$ (88)	$ 87	$ 196
100 percent market share	$ (120)	$ 56	$ 164
75 percent market share	$ (151)	$ 24	$ 133
50 percent market share	$ (182)	$ (7)	$ 102
25 percent market share	$ (214)	$ (38)	$ 70

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement
Twenty Six Current Corporates Operating Expense Scenario
Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 125%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	265,625,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	5,312,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	85,000,000	184,343,750	276,781,250	280,500,000	116,343,750	188,593,750	1
Fed Funds Sold	2.50%	1,328,125,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	17,929,688	42,765,625	65,875,000	66,804,688	25,765,625	43,828,125	2
Reverse Repos	2.50%	1,328,125,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	19,921,875	44,757,813	67,867,188	68,796,875	27,757,813	45,820,313	3
CDs	1.00%	531,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	8,340,625	18,646,875	27,412,500	27,996,875	15,778,125	19,635,000	4
Comm Paper	1.00%	531,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	7,490,625	18,168,750	27,093,750	26,137,500	11,315,625	18,041,250	5
Treasuries	6.90%	3,665,625,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	87,241,875	141,126,563	176,683,125	159,821,250	73,679,063	127,710,375	6
Agency Notes	5.00%	2,656,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	68,422,344	107,987,188	134,932,188	125,438,750	75,535,781	102,463,250	7
Agency MBS	70.00%	37,187,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	650,781,250	1,346,187,500	1,993,250,000	2,019,281,250	870,187,500	1,375,937,500	8
Fixed Assets	0.33%	175,312,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	143,437,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	53,125,000,000					**Interest Income**		945,128,281	1,903,984,063	2,769,895,000	2,774,777,188	1,216,363,281	1,922,029,563	
Liabilities															
O/N Deposits	65.000%	34,531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	466,171,875	1,111,906,250	1,712,750,000	1,736,921,875	669,906,250	1,139,531,250	9
<90 Day Deposits	31.000%	16,468,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	304,671,875	612,637,500	899,193,750	910,721,875	401,837,500	625,812,500	10
Equity															
RUDE, MCS & PIC	4.000%	2,125,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	53,125,000,000					**Interest Expense**		770,843,750	1,724,543,750	2,611,943,750	2,647,643,750	1,071,743,750	1,765,343,750	
							Net Interest Income		174,284,531	179,440,313	157,951,250	127,133,438	144,619,531	156,685,813	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (26 corporates sceanrio)							430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	
							Net Income		(70,715,469)	(65,559,688)	(87,048,750)	(117,866,563)	(100,380,469)	(88,314,187)	
							Return on Assets		-0.13%	-0.12%	-0.16%	-0.22%	-0.19%	-0.17%	
							Return on Equity		-3.33%	-3.09%	-4.10%	-5.55%	-4.72%	-4.16%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement
Twenty Six Current Corporates Operating Expense Scenario
Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 100%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	212,500,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	4,250,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	68,000,000	147,475,000	221,425,000	224,400,000	93,075,000	150,875,000	1
Fed Funds Sold	2.50%	1,062,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	14,343,750	34,212,500	52,700,000	53,443,750	20,612,500	35,062,500	2
Reverse Repos	2.50%	1,062,500,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	15,937,500	35,806,250	54,293,750	55,037,500	22,206,250	36,656,250	3
CDs	1.00%	425,000,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	6,672,500	14,917,500	21,930,000	22,397,500	12,622,500	15,708,000	4
Comm Paper	1.00%	425,000,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	5,992,500	14,535,000	21,675,000	20,910,000	9,052,500	14,433,000	5
Treasuries	6.90%	2,932,500,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	69,793,500	112,901,250	141,346,500	127,857,000	58,943,250	102,168,300	6
Agency Notes	5.00%	2,125,000,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	54,737,875	86,389,750	107,945,750	100,351,000	60,428,625	81,970,600	7
Agency MBS	70.00%	29,750,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	520,625,000	1,076,950,000	1,594,600,000	1,615,425,000	696,150,000	1,100,750,000	8
Fixed Assets	0.33%	140,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	114,750,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	42,500,000,000					**Interest Income**		756,102,625	1,523,187,250	2,215,916,000	2,219,821,750	973,090,625	1,537,623,650	
Liabilities															
O/N Deposits	65.000%	27,625,000,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	372,937,500	889,525,000	1,370,200,000	1,389,537,500	535,925,000	911,625,000	9
<90 Day Deposits	31.000%	13,175,000,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	243,737,500	490,110,000	719,355,000	728,577,500	321,470,000	500,650,000	10
Equity															
RUDE, MCS & PIC	4.000%	1,700,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	42,500,000,000					**Interest Expense**		616,675,000	1,379,635,000	2,089,555,000	2,118,115,000	857,395,000	1,412,275,000	
						Net Interest Income			139,427,625	143,552,250	126,361,000	101,706,750	115,695,625	125,348,650	
						Total Fee Income			185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
			Total Non-Interest Expense (26 corporates sceanrio)						430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	
							Net Income		(105,572,375)	(101,447,750)	(118,639,000)	(143,293,250)	(129,304,375)	(119,651,350)	
							Return on Assets		-0.25%	-0.24%	-0.28%	-0.34%	-0.30%	-0.28%	
							Return on Equity		-6.21%	-5.97%	-6.98%	-8.43%	-7.61%	-7.04%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement
Twenty Six Current Corporates Operating Expense Scenario
Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 75%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	159,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	3,187,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	51,000,000	110,606,250	166,068,750	168,300,000	69,806,250	113,156,250	1
Fed Funds Sold	2.50%	796,875,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	10,757,813	25,659,375	39,525,000	40,082,813	15,459,375	26,296,875	2
Reverse Repos	2.50%	796,875,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	11,953,125	26,854,688	40,720,313	41,278,125	16,654,688	27,492,188	3
CDs	1.00%	318,750,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	5,004,375	11,188,125	16,447,500	16,798,125	9,466,875	11,781,000	4
Comm Paper	1.00%	318,750,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	4,494,375	10,901,250	16,256,250	15,682,500	6,789,375	10,824,750	5
Treasuries	6.90%	2,199,375,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	52,345,125	84,675,938	106,009,875	95,892,750	44,207,438	76,626,225	6
Agency Notes	5.00%	1,593,750,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	41,053,406	64,792,313	80,959,313	75,263,250	45,321,469	61,477,950	7
Agency MBS	70.00%	22,312,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	390,468,750	807,712,500	1,195,950,000	1,211,568,750	522,112,500	825,562,500	8
Fixed Assets	0.33%	105,187,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	86,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	31,875,000,000					**Interest Income**		567,076,969	1,142,390,438	1,661,937,000	1,664,866,313	729,817,969	1,153,217,738	
Liabilities															
O/N Deposits	65.000%	20,718,750,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	279,703,125	667,143,750	1,027,650,000	1,042,153,125	401,943,750	683,718,750	9
<90 Day Deposits	31.000%	9,881,250,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	182,803,125	367,582,500	539,516,250	546,433,125	241,102,500	375,487,500	10
Equity															
RUDE, MCS & PIC	4.000%	1,275,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	31,875,000,000					**Interest Expense**		462,506,250	1,034,726,250	1,567,166,250	1,588,586,250	643,046,250	1,059,206,250	
							Net Interest Income		104,570,719	107,664,188	94,770,750	76,280,063	86,771,719	94,011,488	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
			Total Non-Interest Expense (26 corporates sceanrio)						430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	
							Net Income		(140,429,281)	(137,335,813)	(150,229,250)	(168,719,938)	(158,228,281)	(150,988,513)	
							Return on Assets		-0.44%	-0.43%	-0.47%	-0.53%	-0.50%	-0.47%	
							Return on Equity		-11.01%	-10.77%	-11.78%	-13.23%	-12.41%	-11.84%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Twenty Six Current Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

						Market share of today's <90 day deposits in CCN=					Current seasonally adjusted <90 day deposits in CCN=				
									50%				42.5	bills	
					Interest Rates						**Income and Expense**				
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	106,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	2,125,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	34,000,000	73,737,500	110,712,500	112,200,000	46,537,500	75,437,500	1
Fed Funds Sold	2.50%	531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	7,171,875	17,106,250	26,350,000	26,721,875	10,306,250	17,531,250	2
Reverse Repos	2.50%	531,250,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	7,968,750	17,903,125	27,146,875	27,518,750	11,103,125	18,328,125	3
CDs	1.00%	212,500,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	3,336,250	7,458,750	10,965,000	11,198,750	6,311,250	7,854,000	4
Comm Paper	1.00%	212,500,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	2,996,250	7,267,500	10,837,500	10,455,000	4,526,250	7,216,500	5
Treasuries	6.90%	1,466,250,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	34,896,750	56,450,625	70,673,250	63,928,500	29,471,625	51,084,150	6
Agency Notes	5.00%	1,062,500,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	27,368,938	43,194,875	53,972,875	50,175,500	30,214,313	40,985,300	7
Agency MBS	70.00%	14,875,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	260,312,500	538,475,000	797,300,000	807,712,500	348,075,000	550,375,000	8
Fixed Assets	0.33%	70,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	57,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	21,250,000,000					**Interest Income**		378,051,313	761,593,625	1,107,958,000	1,109,910,875	486,545,313	768,811,825	
Liabilities															
O/N Deposits	65.000%	13,812,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	186,468,750	444,762,500	685,100,000	694,768,750	267,962,500	455,812,500	9
<90 Day Deposits	31.000%	6,587,500,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	121,868,750	245,055,000	359,677,500	364,288,750	160,735,000	250,325,000	10
Equity															
RUDE, MCS & PIC	4.000%	850,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	21,250,000,000					**Interest Expense**		308,337,500	689,817,500	1,044,777,500	1,059,057,500	428,697,500	706,137,500	
						Net Interest Income			69,713,813	71,776,125	63,180,500	50,853,375	57,847,812	62,674,325	
						Total Fee Income			185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (26 corporates sceanrio)							430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	
							Net Income		(175,286,188)	(173,223,875)	(181,819,500)	(194,146,625)	(187,152,188)	(182,325,675)	
							Return on Assets		-0.82%	-0.82%	-0.86%	-0.91%	-0.88%	-0.86%	
							Return on Equity		-20.62%	-20.38%	-21.39%	-22.84%	-22.02%	-21.45%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement
Twenty Six Current Corporates Operating Expense Scenario
Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 25%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	53,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	1,062,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	17,000,000	36,868,750	55,356,250	56,100,000	23,268,750	37,718,750	1
Fed Funds Sold	2.50%	265,625,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	3,585,938	8,553,125	13,175,000	13,360,938	5,153,125	8,765,625	2
Reverse Repos	2.50%	265,625,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	3,984,375	8,951,563	13,573,438	13,759,375	5,551,563	9,164,063	3
CDs	1.00%	106,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	1,668,125	3,729,375	5,482,500	5,599,375	3,155,625	3,927,000	4
Comm Paper	1.00%	106,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	1,498,125	3,633,750	5,418,750	5,227,500	2,263,125	3,608,250	5
Treasuries	6.90%	733,125,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	17,448,375	28,225,313	35,336,625	31,964,250	14,735,813	25,542,075	6
Agency Notes	5.00%	531,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	13,684,469	21,597,438	26,986,438	25,087,750	15,107,156	20,492,650	7
Agency MBS	70.00%	7,437,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	130,156,250	269,237,500	398,650,000	403,856,250	174,037,500	275,187,500	8
Fixed Assets	0.33%	35,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	28,687,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	10,625,000,000					**Interest Income**		189,025,656	380,796,813	553,979,000	554,955,438	243,272,656	384,405,913	
Liabilities															
O/N Deposits	65.000%	6,906,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	93,234,375	222,381,250	342,550,000	347,384,375	133,981,250	227,906,250	9
<90 Day Deposits	31.000%	3,293,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	60,934,375	122,527,500	179,838,750	182,144,375	80,367,500	125,162,500	10
Equity															
RUDE, MCS & PIC	4.000%	425,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	10,625,000,000					**Interest Expense**		154,168,750	344,908,750	522,388,750	529,528,750	214,348,750	353,068,750	
						Net Interest Income			34,856,906	35,888,063	31,590,250	25,426,688	28,923,906	31,337,163	
						Total Fee Income			185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (26 corporates sceanrio)							430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	
							Net Income		(210,143,094)	(209,111,938)	(213,409,750)	(219,573,313)	(216,076,094)	(213,662,838)	
							Return on Assets		-1.98%	-1.97%	-2.01%	-2.07%	-2.03%	-2.01%	
							Return on Equity		-49.45%	-49.20%	-50.21%	-51.66%	-50.84%	-50.27%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Four Large Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 125%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						**Income and Expense**						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	265,625,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	5,312,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	85,000,000	184,343,750	276,781,250	280,500,000	116,343,750	188,593,750	1
Fed Funds Sold	2.50%	1,328,125,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	17,929,688	42,765,625	65,875,000	66,804,688	25,765,625	43,828,125	2
Reverse Repos	2.50%	1,328,125,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	19,921,875	44,757,813	67,867,188	68,796,875	27,757,813	45,820,313	3
CDs	1.00%	531,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	8,340,625	18,646,875	27,412,500	27,996,875	15,778,125	19,635,000	4
Comm Paper	1.00%	531,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	7,490,625	18,168,750	27,093,750	26,137,500	11,315,625	18,041,250	5
Treasuries	6.90%	3,665,625,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	87,241,875	141,126,563	176,683,125	159,821,250	73,679,063	127,710,375	6
Agency Notes	5.00%	2,656,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	68,422,344	107,987,188	134,932,188	125,438,750	75,535,781	102,463,250	7
Agency MBS	70.00%	37,187,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	650,781,250	1,346,187,500	1,993,250,000	2,019,281,250	870,187,500	1,375,937,500	8
Fixed Assets	0.33%	175,312,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	143,437,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	53,125,000,000					**Interest Income**		945,128,281	1,903,984,063	2,769,895,000	2,774,777,188	1,216,363,281	1,922,029,563	
Liabilities															
O/N Deposits	65.000%	34,531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	466,171,875	1,111,906,250	1,712,750,000	1,736,921,875	669,906,250	1,139,531,250	9
<90 Day Deposits	31.000%	16,468,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	304,671,875	612,637,500	899,193,750	910,721,875	401,837,500	625,812,500	10
Equity															
RUDE, MCS & PIC	4.000%	2,125,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	53,125,000,000					**Interest Expense**		770,843,750	1,724,543,750	2,611,943,750	2,647,643,750	1,071,743,750	1,765,343,750	
						Net Interest Income			174,284,531	179,440,313	157,951,250	127,133,438	144,619,531	156,685,813	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
			Total Non-Interest Expense (four corporates sceanrio)						254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	
							Net Income		104,702,655	109,858,436	88,369,374	57,551,561	75,037,655	87,103,936	
							Return on Assets		0.20%	0.21%	0.17%	0.11%	0.14%	0.16%	
							Return on Equity		4.93%	5.17%	4.16%	2.71%	3.53%	4.10%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Four Large Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 100%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	212,500,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	4,250,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	68,000,000	147,475,000	221,425,000	224,400,000	93,075,000	150,875,000	1
Fed Funds Sold	2.50%	1,062,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	14,343,750	34,212,500	52,700,000	53,443,750	20,612,500	35,062,500	2
Reverse Repos	2.50%	1,062,500,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	15,937,500	35,806,250	54,293,750	55,037,500	22,206,250	36,656,250	3
CDs	1.00%	425,000,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	6,672,500	14,917,500	21,930,000	22,397,500	12,622,500	15,708,000	4
Comm Paper	1.00%	425,000,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	5,992,500	14,535,000	21,675,000	20,910,000	9,052,500	14,433,000	5
Treasuries	6.90%	2,932,500,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	69,793,500	112,901,250	141,346,500	127,857,000	58,943,250	102,168,300	6
Agency Notes	5.00%	2,125,000,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	54,737,875	86,389,750	107,945,750	100,351,000	60,428,625	81,970,600	7
Agency MBS	70.00%	29,750,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	520,625,000	1,076,950,000	1,594,600,000	1,615,425,000	696,150,000	1,100,750,000	8
Fixed Assets	0.33%	140,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	114,750,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	42,500,000,000					**Interest Income**		756,102,625	1,523,187,250	2,215,916,000	2,219,821,750	973,090,625	1,537,623,650	
Liabilities															
O/N Deposits	65.000%	27,625,000,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	372,937,500	889,525,000	1,370,200,000	1,389,537,500	535,925,000	911,625,000	9
<90 Day Deposits	31.000%	13,175,000,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	243,737,500	490,110,000	719,355,000	728,577,500	321,470,000	500,650,000	10
Equity															
RUDE, MCS & PIC	4.000%	1,700,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	42,500,000,000					**Interest Expense**		616,675,000	1,379,635,000	2,089,555,000	2,118,115,000	857,395,000	1,412,275,000	
							Net Interest Income		139,427,625	143,552,250	126,361,000	101,706,750	115,695,625	125,348,650	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (four corporates sceanrio)							254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	
							Net Income		69,845,749	73,970,374	56,779,124	32,124,874	46,113,749	55,766,774	
							Return on Assets		0.16%	0.17%	0.13%	0.08%	0.11%	0.13%	
							Return on Equity		4.11%	4.35%	3.34%	1.89%	2.71%	3.28%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Four Large Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 75%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	159,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	3,187,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	51,000,000	110,606,250	166,068,750	168,300,000	69,806,250	113,156,250	1
Fed Funds Sold	2.50%	796,875,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	10,757,813	25,659,375	39,525,000	40,082,813	15,459,375	26,296,875	2
Reverse Repos	2.50%	796,875,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	11,953,125	26,854,688	40,720,313	41,278,125	16,654,688	27,492,188	3
CDs	1.00%	318,750,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	5,004,375	11,188,125	16,447,500	16,798,125	9,466,875	11,781,000	4
Comm Paper	1.00%	318,750,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	4,494,375	10,901,250	16,256,250	15,682,500	6,789,375	10,824,750	5
Treasuries	6.90%	2,199,375,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	52,345,125	84,675,938	106,009,875	95,892,750	44,207,438	76,626,225	6
Agency Notes	5.00%	1,593,750,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	41,053,406	64,792,313	80,959,313	75,263,250	45,321,469	61,477,950	7
Agency MBS	70.00%	22,312,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	390,468,750	807,712,500	1,195,950,000	1,211,568,750	522,112,500	825,562,500	8
Fixed Assets	0.33%	105,187,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	86,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	31,875,000,000					**Interest Income**		567,076,969	1,142,390,438	1,661,937,000	1,664,866,313	729,817,969	1,153,217,738	
Liabilities															
O/N Deposits	65.000%	20,718,750,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	279,703,125	667,143,750	1,027,650,000	1,042,153,125	401,943,750	683,718,750	9
<90 Day Deposits	31.000%	9,881,250,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	182,803,125	367,582,500	539,516,250	546,433,125	241,102,500	375,487,500	10
Equity															
RUDE, MCS & PIC	4.000%	1,275,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	31,875,000,000					**Interest Expense**		462,506,250	1,034,726,250	1,567,166,250	1,588,586,250	643,046,250	1,059,206,250	
							Net Interest Income		104,570,719	107,664,188	94,770,750	76,280,063	86,771,719	94,011,488	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (four corporates sceanrio)							254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	
							Net Income		34,988,842	38,082,311	25,188,874	6,698,186	17,189,842	24,429,611	
							Return on Assets		0.11%	0.12%	0.08%	0.02%	0.05%	0.08%	
							Return on Equity		2.74%	2.99%	1.98%	0.53%	1.35%	1.92%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Four Large Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 50%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	106,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	2,125,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	34,000,000	73,737,500	110,712,500	112,200,000	46,537,500	75,437,500	1
Fed Funds Sold	2.50%	531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	7,171,875	17,106,250	26,350,000	26,721,875	10,306,250	17,531,250	2
Reverse Repos	2.50%	531,250,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	7,968,750	17,903,125	27,146,875	27,518,750	11,103,125	18,328,125	3
CDs	1.00%	212,500,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	3,336,250	7,458,750	10,965,000	11,198,750	6,311,250	7,854,000	4
Comm Paper	1.00%	212,500,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	2,996,250	7,267,500	10,837,500	10,455,000	4,526,250	7,216,500	5
Treasuries	6.90%	1,466,250,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	34,896,750	56,450,625	70,673,250	63,928,500	29,471,625	51,084,150	6
Agency Notes	5.00%	1,062,500,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	27,368,938	43,194,875	53,972,875	50,175,500	30,214,313	40,985,300	7
Agency MBS	70.00%	14,875,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	260,312,500	538,475,000	797,300,000	807,712,500	348,075,000	550,375,000	8
Fixed Assets	0.33%	70,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	57,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	21,250,000,000						**Interest Income**	378,051,313	761,593,625	1,107,958,000	1,109,910,875	486,545,313	768,811,825	
Liabilities															
O/N Deposits	65.000%	13,812,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	186,468,750	444,762,500	685,100,000	694,768,750	267,962,500	455,812,500	9
<90 Day Deposits	31.000%	6,587,500,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	121,868,750	245,055,000	359,677,500	364,288,750	160,735,000	250,325,000	10
Equity															
RUDE, MCS & PIC	4.000%	850,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	21,250,000,000						**Interest Expense**	308,337,500	689,817,500	1,044,777,500	1,059,057,500	428,697,500	706,137,500	
								Net Interest Income	69,713,813	71,776,125	63,180,500	50,853,375	57,847,812	62,674,325	
								Total Fee Income	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
								Total Non-Interest Expense (four corporates sceanrio)	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	
								Net Income	131,936	2,194,249	(6,401,376)	(18,728,501)	(11,734,064)	(6,907,551)	
								Return on Assets	0.00%	0.01%	-0.03%	-0.09%	-0.06%	-0.03%	
								Return on Equity	0.02%	0.26%	-0.75%	-2.20%	-1.38%	-0.81%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

Four Large Corporates Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 25%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						**Income and Expense**						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	53,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	1,062,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	17,000,000	36,868,750	55,356,250	56,100,000	23,268,750	37,718,750	1
Fed Funds Sold	2.50%	265,625,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	3,585,938	8,553,125	13,175,000	13,360,938	5,153,125	8,765,625	2
Reverse Repos	2.50%	265,625,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	3,984,375	8,951,563	13,573,438	13,759,375	5,551,563	9,164,063	3
CDs	1.00%	106,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	1,668,125	3,729,375	5,482,500	5,599,375	3,155,625	3,927,000	4
Comm Paper	1.00%	106,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	1,498,125	3,633,750	5,418,750	5,227,500	2,263,125	3,608,250	5
Treasuries	6.90%	733,125,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	17,448,375	28,225,313	35,336,625	31,964,250	14,735,813	25,542,075	6
Agency Notes	5.00%	531,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	13,684,469	21,597,438	26,986,438	25,087,750	15,107,156	20,492,650	7
Agency MBS	70.00%	7,437,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	130,156,250	269,237,500	398,650,000	403,856,250	174,037,500	275,187,500	8
Fixed Assets	0.33%	35,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	28,687,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	10,625,000,000						**Interest Income**	189,025,656	380,796,813	553,979,000	554,955,438	243,272,656	384,405,913	
Liabilities															
O/N Deposits	65.000%	6,906,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	93,234,375	222,381,250	342,550,000	347,384,375	133,981,250	227,906,250	9
<90 Day Deposits	31.000%	3,293,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	60,934,375	122,527,500	179,838,750	182,144,375	80,367,500	125,162,500	10
Equity															
RUDE, MCS & PIC	4.000%	425,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	10,625,000,000						**Interest Expense**	154,168,750	344,908,750	522,388,750	529,528,750	214,348,750	353,068,750	
								Net Interest Income	34,856,906	35,888,063	31,590,250	25,426,688	28,923,906	31,337,163	
								Total Fee Income	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
								Total Non-Interest Expense (four corporates sceanrio)	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	254,581,876	
								Net Income	(34,724,970)	(33,693,814)	(37,991,626)	(44,155,189)	(40,657,970)	(38,244,714)	
								Return on Assets	-0.33%	-0.32%	-0.36%	-0.42%	-0.38%	-0.36%	
								Return on Equity	-8.17%	-7.93%	-8.94%	-10.39%	-9.57%	-9.00%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

One Large Corporate Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 125%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						**Income and Expense**						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	265,625,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	5,312,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	85,000,000	184,343,750	276,781,250	280,500,000	116,343,750	188,593,750	1
Fed Funds Sold	2.50%	1,328,125,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	17,929,688	42,765,625	65,875,000	66,804,688	25,765,625	43,828,125	2
Reverse Repos	2.50%	1,328,125,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	19,921,875	44,757,813	67,867,188	68,796,875	27,757,813	45,820,313	3
CDs	1.00%	531,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	8,340,625	18,646,875	27,412,500	27,996,875	15,778,125	19,635,000	4
Comm Paper	1.00%	531,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	7,490,625	18,168,750	27,093,750	26,137,500	11,315,625	18,041,250	5
Treasuries	6.90%	3,665,625,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	87,241,875	141,126,563	176,683,125	159,821,250	73,679,063	127,710,375	6
Agency Notes	5.00%	2,656,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	68,422,344	107,987,188	134,932,188	125,438,750	75,535,781	102,463,250	7
Agency MBS	70.00%	37,187,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	650,781,250	1,346,187,500	1,993,250,000	2,019,281,250	870,187,500	1,375,937,500	8
Fixed Assets	0.33%	175,312,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	143,437,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	53,125,000,000					**Interest Income**		945,128,281	1,903,984,063	2,769,895,000	2,774,777,188	1,216,363,281	1,922,029,563	
Liabilities															
O/N Deposits	65.000%	34,531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	466,171,875	1,111,906,250	1,712,750,000	1,736,921,875	669,906,250	1,139,531,250	9
<90 Day Deposits	31.000%	16,468,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	304,671,875	612,637,500	899,193,750	910,721,875	401,837,500	625,812,500	10
Equity															
RUDE, MCS & PIC	4.000%	2,125,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	53,125,000,000					**Interest Expense**		770,843,750	1,724,543,750	2,611,943,750	2,647,643,750	1,071,743,750	1,765,343,750	
							Net Interest Income		174,284,531	179,440,313	157,951,250	127,133,438	144,619,531	156,685,813	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (one corporate sceanrio)							145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	
							Net Income		213,423,201	218,578,983	197,089,920	166,272,108	183,758,201	195,824,483	
							Return on Assets		0.40%	0.41%	0.37%	0.31%	0.35%	0.37%	
							Return on Equity		10.04%	10.29%	9.27%	7.82%	8.65%	9.22%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

One Large Corporate Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 100%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	212,500,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	4,250,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	68,000,000	147,475,000	221,425,000	224,400,000	93,075,000	150,875,000	1
Fed Funds Sold	2.50%	1,062,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	14,343,750	34,212,500	52,700,000	53,443,750	20,612,500	35,062,500	2
Reverse Repos	2.50%	1,062,500,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	15,937,500	35,806,250	54,293,750	55,037,500	22,206,250	36,656,250	3
CDs	1.00%	425,000,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	6,672,500	14,917,500	21,930,000	22,397,500	12,622,500	15,708,000	4
Comm Paper	1.00%	425,000,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	5,992,500	14,535,000	21,675,000	20,910,000	9,052,500	14,433,000	5
Treasuries	6.90%	2,932,500,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	69,793,500	112,901,250	141,346,500	127,857,000	58,943,250	102,168,300	6
Agency Notes	5.00%	2,125,000,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	54,737,875	86,389,750	107,945,750	100,351,000	60,428,625	81,970,600	7
Agency MBS	70.00%	29,750,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	520,625,000	1,076,950,000	1,594,600,000	1,615,425,000	696,150,000	1,100,750,000	8
Fixed Assets	0.33%	140,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	114,750,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	42,500,000,000						**Interest Income**	756,102,625	1,523,187,250	2,215,916,000	2,219,821,750	973,090,625	1,537,623,650	
Liabilities															
O/N Deposits	65.000%	27,625,000,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	372,937,500	889,525,000	1,370,200,000	1,389,537,500	535,925,000	911,625,000	9
<90 Day Deposits	31.000%	13,175,000,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	243,737,500	490,110,000	719,355,000	728,577,500	321,470,000	500,650,000	10
Equity															
RUDE, MCS & PIC	4.000%	1,700,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	42,500,000,000						**Interest Expense**	616,675,000	1,379,635,000	2,089,555,000	2,118,115,000	857,395,000	1,412,275,000	
								Net Interest Income	139,427,625	143,552,250	126,361,000	101,706,750	115,695,625	125,348,650	
								Total Fee Income	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
								Total Non-Interest Expense (one corporate sceanrio)	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	
								Net Income	178,566,295	182,690,920	165,499,670	140,845,420	154,834,295	164,487,320	
								Return on Assets	0.42%	0.43%	0.39%	0.33%	0.36%	0.39%	
								Return on Equity	10.50%	10.75%	9.74%	8.29%	9.11%	9.68%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement
One Large Corporate Operating Expense Scenario
Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 75%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						**Income and Expense**						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	159,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	3,187,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	51,000,000	110,606,250	166,068,750	168,300,000	69,806,250	113,156,250	1
Fed Funds Sold	2.50%	796,875,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	10,757,813	25,659,375	39,525,000	40,082,813	15,459,375	26,296,875	2
Reverse Repos	2.50%	796,875,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	11,953,125	26,854,688	40,720,313	41,278,125	16,654,688	27,492,188	3
CDs	1.00%	318,750,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	5,004,375	11,188,125	16,447,500	16,798,125	9,466,875	11,781,000	4
Comm Paper	1.00%	318,750,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	4,494,375	10,901,250	16,256,250	15,682,500	6,789,375	10,824,750	5
Treasuries	6.90%	2,199,375,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	52,345,125	84,675,938	106,009,875	95,892,750	44,207,438	76,626,225	6
Agency Notes	5.00%	1,593,750,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	41,053,406	64,792,313	80,959,313	75,263,250	45,321,469	61,477,950	7
Agency MBS	70.00%	22,312,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	390,468,750	807,712,500	1,195,950,000	1,211,568,750	522,112,500	825,562,500	8
Fixed Assets	0.33%	105,187,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	86,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	31,875,000,000					**Interest Income**		567,076,969	1,142,390,438	1,661,937,000	1,664,866,313	729,817,969	1,153,217,738	
Liabilities															
O/N Deposits	65.000%	20,718,750,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	279,703,125	667,143,750	1,027,650,000	1,042,153,125	401,943,750	683,718,750	9
<90 Day Deposits	31.000%	9,881,250,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	182,803,125	367,582,500	539,516,250	546,433,125	241,102,500	375,487,500	10
Equity															
RUDE, MCS & PIC	4.000%	1,275,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	31,875,000,000					**Interest Expense**		462,506,250	1,034,726,250	1,567,166,250	1,588,586,250	643,046,250	1,059,206,250	
							Net Interest Income		104,570,719	107,664,188	94,770,750	76,280,063	86,771,719	94,011,488	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
		Total Non-Interest Expense (one corporate sceanrio)							145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	
							Net Income		143,709,389	146,802,858	133,909,420	115,418,733	125,910,389	133,150,158	
							Return on Assets		0.45%	0.46%	0.42%	0.36%	0.40%	0.42%	
							Return on Equity		11.27%	11.51%	10.50%	9.05%	9.88%	10.44%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement															
One Large Corporate Operating Expense Scenario						Market share of today's <90 day deposits in CCN=					Current seasonally adjusted <90 day deposits in CCN=				
Assumes <90 Day Deposits Equal to Current CCN										50%				42.5	bills
					Interest Rates							**Income and Expense**			
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	106,250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	2,125,000,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	34,000,000	73,737,500	110,712,500	112,200,000	46,537,500	75,437,500	1
Fed Funds Sold	2.50%	531,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	7,171,875	17,106,250	26,350,000	26,721,875	10,306,250	17,531,250	2
Reverse Repos	2.50%	531,250,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	7,968,750	17,903,125	27,146,875	27,518,750	11,103,125	18,328,125	3
CDs	1.00%	212,500,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	3,336,250	7,458,750	10,965,000	11,198,750	6,311,250	7,854,000	4
Comm Paper	1.00%	212,500,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	2,996,250	7,267,500	10,837,500	10,455,000	4,526,250	7,216,500	5
Treasuries	6.90%	1,466,250,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	34,896,750	56,450,625	70,673,250	63,928,500	29,471,625	51,084,150	6
Agency Notes	5.00%	1,062,500,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	27,368,938	43,194,875	53,972,875	50,175,500	30,214,313	40,985,300	7
Agency MBS	70.00%	14,875,000,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	260,312,500	538,475,000	797,300,000	807,712,500	348,075,000	550,375,000	8
Fixed Assets	0.33%	70,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	57,375,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	21,250,000,000					**Interest Income**		378,051,313	761,593,625	1,107,958,000	1,109,910,875	486,545,313	768,811,825	
Liabilities															
O/N Deposits	65.000%	13,812,500,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	186,468,750	444,762,500	685,100,000	694,768,750	267,962,500	455,812,500	9
<90 Day Deposits	31.000%	6,587,500,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	121,868,750	245,055,000	359,677,500	364,288,750	160,735,000	250,325,000	10
Equity															
RUDE, MCS & PIC	4.000%	850,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	21,250,000,000					**Interest Expense**		308,337,500	689,817,500	1,044,777,500	1,059,057,500	428,697,500	706,137,500	
							Net Interest Income		69,713,813	71,776,125	63,180,500	50,853,375	57,847,812	62,674,325	
							Total Fee Income		185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
			Total Non-Interest Expense (one corporate sceanrio)						145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	
							Net Income		108,852,483	110,914,795	102,319,170	89,992,045	96,986,483	101,812,995	
							Return on Assets		0.51%	0.52%	0.48%	0.42%	0.46%	0.48%	
							Return on Equity		12.81%	13.05%	12.04%	10.59%	11.41%	11.98%	
	Notes:														
	1	Fed Funds Effective plus 25 bps				7	2-year Agency Rates								
	2	Fed Funds Effective flat				8	1 Month Libor plus 10 bps spread								
	3	Fed Funds Effective plus 15 bps				9	Fed Funds Effective flat								
	4	CD Rates from FRB Website				10	Fed Funds Effective plus 50 bps								
	5	CP Rates from FRB Website				11	Assumes no PIC & MCS divs								
	6	Const Mat Treas Rates from FRB													

Liquidity Corporate Pro-Forma Balance Sheet and Income Statement

One Large Corporate Operating Expense Scenario

Assumes <90 Day Deposits Equal to Current CCN

Market share of today's <90 day deposits in CCN= 25%

Current seasonally adjusted <90 day deposits in CCN= 42.5 bills

			Interest Rates						Income and Expense						
Assets	**Portfolio %**	**Invested $**	**2004**	**2005**	**2006**	**2007**	**2008**	**Avg**	**2004**	**2005**	**2006**	**2007**	**2008**	**5 Year Avg**	**Note**
Cash	0.50%	53,125,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Loans to Cus	10.00%	1,062,500,000	1.60%	3.47%	5.21%	5.28%	2.19%	3.55%	17,000,000	36,868,750	55,356,250	56,100,000	23,268,750	37,718,750	1
Fed Funds Sold	2.50%	265,625,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	3,585,938	8,553,125	13,175,000	13,360,938	5,153,125	8,765,625	2
Reverse Repos	2.50%	265,625,000	1.50%	3.37%	5.11%	5.18%	2.09%	3.45%	3,984,375	8,951,563	13,573,438	13,759,375	5,551,563	9,164,063	3
CDs	1.00%	106,250,000	1.57%	3.51%	5.16%	5.27%	2.97%	3.70%	1,668,125	3,729,375	5,482,500	5,599,375	3,155,625	3,927,000	4
Comm Paper	1.00%	106,250,000	1.41%	3.42%	5.10%	4.92%	2.13%	3.40%	1,498,125	3,633,750	5,418,750	5,227,500	2,263,125	3,608,250	5
Treasuries	6.90%	733,125,000	2.38%	3.85%	4.82%	4.36%	2.01%	3.48%	17,448,375	28,225,313	35,336,625	31,964,250	14,735,813	25,542,075	6
Agency Notes	5.00%	531,250,000	2.58%	4.07%	5.08%	4.72%	2.84%	3.86%	13,684,469	21,597,438	26,986,438	25,087,750	15,107,156	20,492,650	7
Agency MBS	70.00%	7,437,500,000	1.75%	3.62%	5.36%	5.43%	2.34%	3.70%	130,156,250	269,237,500	398,650,000	403,856,250	174,037,500	275,187,500	8
Fixed Assets	0.33%	35,062,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Other Assets	0.27%	28,687,500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	-	-	
Total Assets	100.00%	10,625,000,000						**Interest Income**	189,025,656	380,796,813	553,979,000	554,955,438	243,272,656	384,405,913	
Liabilities															
O/N Deposits	65.000%	6,906,250,000	1.35%	3.22%	4.96%	5.03%	1.94%	3.30%	93,234,375	222,381,250	342,550,000	347,384,375	133,981,250	227,906,250	9
<90 Day Deposits	31.000%	3,293,750,000	1.85%	3.72%	5.46%	5.53%	2.44%	3.80%	60,934,375	122,527,500	179,838,750	182,144,375	80,367,500	125,162,500	10
Equity															
RUDE, MCS & PIC	4.000%	425,000,000							-	-	-	-	-	-	11
Total Liabs & Equity	100.000%	10,625,000,000						**Interest Expense**	154,168,750	344,908,750	522,388,750	529,528,750	214,348,750	353,068,750	
								Net Interest Income	34,856,906	35,888,063	31,590,250	25,426,688	28,923,906	31,337,163	
								Total Fee Income	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	185,000,000	
								Total Non-Interest Expense (one corporate sceanrio)	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	145,861,330	
								Net Income	73,995,576	75,026,733	70,728,920	64,565,358	68,062,576	70,475,833	
								Return on Assets	0.70%	0.71%	0.67%	0.61%	0.64%	0.66%	
								Return on Equity	17.41%	17.65%	16.64%	15.19%	16.01%	16.58%	

Notes:

1	Fed Funds Effective plus 25 bps	7	2-year Agency Rates
2	Fed Funds Effective flat	8	1 Month Libor plus 10 bps spread
3	Fed Funds Effective plus 15 bps	9	Fed Funds Effective flat
4	CD Rates from FRB Website	10	Fed Funds Effective plus 50 bps
5	CP Rates from FRB Website	11	Assumes no PIC & MCS divs
6	Const Mat Treas Rates from FRB		

Appendix 4

Impact of U.S. Central's OTTI and Unrealized Losses on Corporates

Corporate Credit Union Initiative Report

Impact of U.S. Central’s OTTI and Unrealized Losses on Corporates

This appendix contains an analysis showing the implicit impact of U.S. Central’s recent OTTI charge and unrealized losses on the retained earnings, capital and net economic value (NEV) ratios of the other corporates. The analysis shows that 17 of the 26 corporates would have retained earnings ratios less than the 2 percent required to avoid reserving if they were required to write down their primary capital for U.S. Central’s OTTI charge. Recognizing U.S. Central’s unrealized losses against their capital would have large impacts on all of the corporates’ retained earnings, capital and NEV ratios.

Analysis of Corporate Capital Ratios Considering Impact of U.S. Central OTTI and Unrealized Losses
All Data from NCUA 5310 Reports for November 2008

	Retained Earnings Ratio *			Capital Ratio *			Base NEV Ratio		
Corporate Name	**Current**	**w/ OTTI Allocation**	**w/ Unrealized Loss Allocation**	**Current**	**w/ OTTI Allocation**	**w/ Unrealized Loss Allocation**	**Current**	**w/ OTTI Allocation**	**w/ Unrealized Loss Allocation**
Wescorp	2.78%	2.59%	2.23%	6.71%	6.52%	6.16%	-9.44%	-9.68%	-10.21%
Southwest Corporate FCU	3.00%	2.57%	-6.76%	6.46%	6.03%	-3.29%	-7.30%	-7.83%	-22.04%
TRICORP FCU	2.62%	1.69%	-21.24%	6.22%	5.29%	-17.64%	6.67%	5.71%	-23.93%
Members United Corporate FCU	2.51%	1.92%	-5.13%	7.25%	6.65%	-0.40%	-11.94%	-12.70%	-24.13%
VACORP FCU	2.46%	1.62%	-20.52%	6.05%	5.21%	-16.93%	6.67%	5.71%	-26.77%
Southeast Corporate FCU	3.17%	1.82%	-12.26%	5.92%	4.57%	-9.50%	1.57%	-0.06%	-20.82%
Mid-Atlantic Corporate FCU	2.95%	1.71%	-16.13%	8.94%	7.71%	-10.13%	8.76%	7.40%	-15.44%
Eastern Corporate FCU	2.85%	1.87%	-11.60%	6.03%	5.06%	-8.42%	6.44%	5.33%	-11.94%
Kentucky Corporate FCU	2.64%	1.32%	-21.68%	6.75%	5.43%	-17.57%	7.98%	6.42%	-29.20%
Corporate One FCU	3.09%	2.82%	-3.83%	6.64%	6.37%	-0.27%	-0.71%	-1.00%	-8.76%
Midwest Corporate FCU	2.87%	1.22%	-17.88%	5.32%	3.66%	-15.43%	7.45%	5.04%	-32.79%
Constitution Corporate FCU	3.06%	2.61%	-8.59%	7.08%	6.63%	-4.57%	-14.56%	-15.07%	-32.24%
Georgia Central CU	2.39%	1.28%	-20.81%	6.10%	4.98%	-17.11%	5.95%	4.81%	-23.55%
First Corporate CU	2.60%	0.83%	-18.88%	9.03%	7.27%	-12.44%	4.93%	3.58%	-13.72%
Iowa Corporate Central CU	18.28%	16.83%	-8.22%	26.60%	25.14%	0.09%	24.69%	23.35%	0.20%
First Carolina Corporate CU	2.84%	1.49%	-15.27%	7.03%	5.68%	-11.07%	4.80%	3.29%	-19.45%
Corporate America CU	2.13%	1.57%	-5.26%	5.16%	4.59%	-2.23%	3.05%	2.49%	-4.62%
Louisiana Corporate CU	2.33%	1.17%	-18.03%	9.28%	8.12%	-11.08%	7.69%	6.52%	-16.06%
West Virginia Corporate CU	3.68%	2.18%	-20.74%	8.18%	6.69%	-16.24%	9.31%	7.59%	-26.23%
Kansas Corporate CU	2.96%	1.47%	-16.30%	11.49%	10.00%	-7.77%	12.71%	11.00%	-12.14%
Volunteer Corporate CU	2.72%	2.00%	-13.74%	6.91%	6.19%	-9.55%	6.75%	5.95%	-14.14%
Central Corporate CU	3.50%	2.93%	-17.30%	7.04%	6.46%	-13.77%	7.24%	6.56%	-23.24%
SunCorp Corporate CU	2.77%	1.74%	-12.18%	7.53%	6.50%	-7.41%	2.76%	1.56%	-17.67%
Missouri Corporate CU	3.39%	1.95%	-23.74%	7.34%	5.90%	-19.79%	7.88%	6.33%	-29.99%
Corporate Central CU	3.97%	3.21%	-10.53%	10.91%	10.14%	-3.60%	9.25%	8.50%	-5.76%
Treasure State Corporate CU	2.73%	1.09%	-23.43%	6.20%	4.56%	-19.96%	7.45%	5.48%	-35.16%

* It is important to note that this analysis does not consider any OTTI charges that have or will be made by corporates subsequent to November 2008, other than the U.S. Central OTTI charge. Thus, the corporates that do most of their investing outside of U.S. Central may need to book OTTI charges that could dramatically reduce their retained earnings and capital ratios.

Appendix 5

Response to NCUA Regulation 704 ANPR

Intentionally Omitted

Appendix 6

Impact of U.S. Central and Wescorp Capital Impairment

Corporate Credit Union Initiative Report

Impact of U.S. Central and Wescorp Capital Impairment

This appendix contains an analysis showing the impact of the write-off of U.S. Central and Wescorp capital, due to their conservatorships, on the corporates' retained earnings, capital and net economic value (NEV) ratios. The data in this analysis was taken from December 2008 NCUA 5310 reports (as opposed to the data used for the similar analysis in Appendix 4, which was taken from November 2008 5310 reports.) The analysis uses green shading to identify positive retained earnings ratios, capital ratios in excess of the 4 percent requirement, and positive NEV ratios. Note that only Corporate One, Iowa, Volunteer and Corporate Central have green shading on all three of their ratios.

Analysis of Corporate Capital Ratios Considering Impact of Write-Off of All Wescorp Capital and then U.S. Central PIC and MCS
All Data from NCUA 5310 Reports for December 2008

	Retained Earnings Ratio		Capital Ratio		Base NEV Ratio	
Corporate Name	**Current**	**w/ USC PIC and MCS Write-Offs**	**Current**	**w/ USC PIC and MCS Write-Offs**	**Current**	**w/ USC PIC and MCS Write-Offs**
Wescorp	2.82%	-0.40%	6.83%	-0.40%	-8.20%	-9.55%
Southwest Corporate FCU	2.88%	0.55%	6.47%	4.13%	-7.00%	-10.65%
TRICORP FCU	2.65%	-2.09%	6.27%	1.53%	6.96%	1.98%
Members United Corporate FCU	2.61%	-0.07%	7.52%	4.84%	-13.67%	-17.60%
VACORP FCU	2.50%	-2.45%	6.18%	1.23%	6.67%	1.15%
Southeast Corporate FCU	3.21%	-0.25%	6.01%	2.56%	1.30%	-3.42%
Mid-Atlantic Corporate FCU	2.99%	-1.41%	9.02%	4.62%	9.20%	4.44%
Eastern Corporate FCU	2.85%	-1.06%	6.10%	2.20%	5.99%	1.63%
Kentucky Corporate FCU	2.68%	-2.20%	7.01%	2.13%	8.22%	2.60%
Corporate One FCU	3.15%	1.29%	6.72%	4.86%	-1.54%	0.41%
Midwest Corporate FCU	2.94%	-2.19%	5.46%	0.33%	7.45%	0.20%
Constitution Corporate FCU	3.14%	1.04%	7.22%	5.12%	-17.05%	-20.07%
Georgia Central CU	2.39%	-2.10%	6.06%	1.58%	5.65%	1.34%
First Corporate CU	2.61%	-2.21%	9.05%	4.23%	5.34%	1.04%
Iowa Corporate Central CU	16.90%	12.42%	25.31%	20.83%	24.02%	20.65%
First Carolina Corporate CU	2.82%	-1.94%	7.05%	2.29%	4.71%	-0.92%
Corporate America CU	2.11%	0.06%	5.05%	3.00%	3.05%	0.98%
Louisiana Corporate CU	2.36%	-1.88%	9.40%	5.17%	7.69%	3.64%
West Virginia Corporate CU	3.75%	-1.38%	8.29%	3.17%	10.29%	4.14%
Kansas Corporate CU	3.01%	-1.93%	11.69%	6.75%	12.71%	7.54%
Volunteer Corporate CU	2.76%	0.12%	7.00%	4.36%	7.46%	4.50%
Central Corporate CU	3.61%	-1.21%	7.22%	2.41%	8.18%	1.92%
SunCorp Corporate CU	2.87%	-1.10%	7.77%	3.80%	1.07%	-3.81%
Missouri Corporate CU	3.40%	-1.41%	7.35%	2.54%	7.20%	2.62%
Corporate Central CU	4.09%	0.18%	11.08%	7.17%	9.46%	5.86%
Treasure State Corporate CU	2.75%	-1.76%	6.33%	1.81%	6.75%	2.10%